

ASIAINFO-LINKAGE, INC  
Form 10-Q  
May 09, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from            to

Commission File Number 001-15713

**ASIAINFO-LINKAGE, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**752506390**  
(I.R.S. Employer  
Identification No.)

**4TH FLOOR, ZHONGDIAN INFORMATION TOWER**

**6 ZHONGGUANCUN SOUTH STREET, HAIDIAN DISTRICT**

**BEIJING 100086, CHINA**

(Address of principal executive offices, including zip code)

**+8610 8216 6688**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's common stock outstanding as of May 2, 2013 was 72,793,804.

**Table of Contents**

ASIAINFO-LINKAGE, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2013

TABLE OF CONTENTS

|  | Page |
|--|------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  | 1    |
| Item 1. <b><u>Financial Statements (unaudited)</u></b>   | 1    |
| a) <b><u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012</u></b>                                | 1    |
| b) <b><u>Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012</u></b>                      | 2    |
| c) <b><u>Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012</u></b>  | 3    |
| d) <b><u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012</u></b>                                | 4    |
| e) <b><u>Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2013 and year ended December 31, 2012</u></b> | 5    |
| f) <b><u>Notes to Condensed Consolidated Financial Statements</u></b>  | 6    |
| Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>  | 23   |
| Item 3. <b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>   | 37   |
| Item 4. <b><u>Controls and Procedures</u></b>  | 37   |
| <b><u>PART II. OTHER INFORMATION</u></b>   | 39   |
| Item 1. <b><u>Legal Proceedings</u></b>  | 39   |
| Item 6. <b><u>Exhibits</u></b>   | 39   |
| <b><u>SIGNATURE</u></b>  | 40   |
| <b><u>EXHIBIT INDEX</u></b>  | 41   |

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ASIAINFO-LINKAGE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(U.S. dollars in thousands, except share and per share amounts)

|  | <b>Three Months Ended<br/>March 31,</b> |                |
|--|---|----------------|
|  | <b>2013</b>                             | <b>2012</b>    |
| <b>Revenues:</b>   |   |                |
| Software products and solutions  | \$ 129,473                              | \$ 114,062     |
| Service  | 5,866                                   | 6,954          |
| Third-party hardware   | 7,686                                   | 2,681          |
| <b>Total revenues</b>  | <b>143,025</b>                          | <b>123,697</b> |
| <b>Cost of revenues:</b>   |   |                |
| Software products and solutions  | 81,175                                  | 68,539         |
| Service  | 4,912                                   | 4,177          |
| Third-party hardware   | 7,302                                   | 2,547          |
| <b>Total cost of revenues</b>  | <b>93,389</b>                           | <b>75,263</b>  |
| <b>Gross profit</b>  | <b>49,636</b>                           | <b>48,434</b>  |
| <b>Operating expenses:</b>   |   |                |
| Sales and marketing  | 18,611                                  | 20,348         |
| General and administrative   | 8,248                                   | 7,478          |
| Research and development   | 19,834                                  | 18,097         |
| <b>Total operating expenses</b>  | <b>46,693</b>                           | <b>45,923</b>  |
| <b>Income from operations</b>  | <b>2,943</b>                            | <b>2,511</b>   |
| <b>Other income (expenses), net:</b>   |   |                |
| Interest income  | 2,156                                   | 2,397          |
| Dividend income  | 98                                      | 0              |
| Gain from sales of short-term investments  | 48                                      | 2,027          |
| Other expense  | (55)                                    | (165)          |
| <b>Total other income, net</b>   | <b>2,247</b>                            | <b>4,259</b>   |
| <b>Income before income tax (benefit) expense, loss on equity method investment and income (loss) from discontinued operations, net of income tax</b>      | <b>5,190</b>                            | <b>6,770</b>   |
| <b>Income tax (benefit) expense</b>  | <b>(6,603)</b>                          | <b>1,344</b>   |
| <b>Income after income tax (benefit) expense before loss on equity method investment and income (loss) from discontinued operations, net of income tax</b> | <b>11,793</b>                           | <b>5,426</b>   |
| <b>Loss on equity method investment, net of income tax</b>   | <b>(271)</b>                            | <b>0</b>       |

Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

|   |            |            |
|---|------------|------------|
| Income from continuing operations   | 11,522     | 5,426      |
| <b>Discontinued operations:</b>   |            |            |
| Income from operations of discontinued operations   | 0          | 1          |
| Gain on sales of discontinued operations  | 1,153      | 0          |
| Income tax expense for discontinued operations  | 0          | 8          |
| Income (loss) from discontinued operations, net of income tax                                       | 1,153      | (7)        |
| Net income  | 12,675     | 5,419      |
| Less: Net loss attributable to noncontrolling interest  | (1,426)    | (943)      |
| Net income attributable to AsiaInfo-Linkage, Inc.   | \$ 14,101  | \$ 6,362   |
| <b>Earnings per share:</b>  |            |            |
| Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders:   |            |            |
| Basic   | \$ 0.18    | \$ 0.09    |
| Diluted   | \$ 0.18    | \$ 0.09    |
| Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders: |            |            |
| Basic   | \$ 0.01    | \$ 0.00    |
| Diluted   | \$ 0.01    | \$ 0.00    |
| Net income attributable to AsiaInfo-Linkage, Inc. common stockholders:                              |            |            |
| Basic   | \$ 0.19    | \$ 0.09    |
| Diluted   | \$ 0.19    | \$ 0.09    |
| <b>Weighted average shares used in computation:</b>   |            |            |
| Basic   | 72,742,215 | 72,473,455 |
| Diluted   | 72,876,950 | 72,725,554 |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ASIAINFO-LINKAGE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)****(U.S. dollars in thousands)**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2013</b>                             | <b>2012</b> |
| Net income   | \$ 12,675                               | \$ 5,419    |
| Other comprehensive income (loss), net of tax:   |   |             |
| Change in cumulative foreign currency translation adjustment   | 1,053                                   | 545         |
| Transfer to statements of operations of realized gain on available-for-sale securities, net of tax effects of \$7 and \$304 for the three months ended March 31, 2013 and 2012, respectively | (41)                                    | (1,723)     |
| Net unrealized gain on available-for-sale securities, net of tax effects of (\$112) and (\$100) for the three months ended March 31, 2013 and 2012, respectively                             | 523                                     | 294         |
| Other comprehensive income (loss)  | 1,535                                   | (884)       |
| Comprehensive income   | 14,210                                  | 4,535       |
| Less: Comprehensive loss attributable to noncontrolling interest   | (1,426)                                 | (943)       |
| Comprehensive income attributable to AsiaInfo-Linkage, Inc.  | \$ 15,636                               | \$ 5,478    |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ASIAINFO-LINKAGE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(U.S. dollars in thousands, except share and per share amounts)

|   | March 31,<br>2013   | December 31,<br>2012 |
|---|---------------------|----------------------|
| <b>ASSETS</b>   |                     |                      |
| Current Assets:   |                     |                      |
| Cash and cash equivalents   | \$ 253,565          | \$ 273,520           |
| Restricted cash   | 39,404              | 39,639               |
| Short-term investments available-for-sale securities  | 26,089              | 27,928               |
| Short-term investments held-to-maturity securities  | 12,762              | 12,728               |
| Accounts receivable (net of allowances of \$4,408 and \$2,999 as of March 31, 2013 and December 31, 2012, respectively) | 292,293             | 285,695              |
| Inventories   | 48,170              | 24,107               |
| Other receivables   | 6,562               | 6,504                |
| Deferred income tax assets current  | 5,572               | 5,559                |
| Income taxes recoverable  | 9,005               | 0                    |
| Prepaid expenses and other current assets   | 7,322               | 8,311                |
| <b>Total current assets</b>   | <b>700,744</b>      | <b>683,991</b>       |
| Long-term investments   | 7,766               | 5,936                |
| Property and equipment, net   | 22,882              | 19,104               |
| Other acquired intangible assets, net   | 111,734             | 121,529              |
| Deferred income tax assets non-current  | 2,560               | 2,560                |
| Goodwill  | 433,566             | 433,545              |
| Land use right, net   | 14,247              | 14,326               |
| Other non-current assets  | 1,399               | 1,332                |
| <b>Total assets</b>   | <b>\$ 1,294,898</b> | <b>\$ 1,282,323</b>  |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY</b>   |                     |                      |
| Current Liabilities:  |                     |                      |
| Accounts payable  | \$ 77,942           | \$ 78,079            |
| Accrued expenses  | 26,072              | 28,065               |
| Deferred revenue  | 37,790              | 40,491               |
| Accrued employee benefits   | 74,734              | 76,803               |
| Other payables  | 5,446               | 5,270                |
| Income taxes payable  | 6,166               | 6,875                |
| Other taxes payable   | 12,563              | 10,305               |
| Deferred income tax liabilities current   | 1,690               | 1,565                |
| <b>Total current liabilities</b>  | <b>242,403</b>      | <b>247,453</b>       |
| Unrecognized tax benefits   | 2,483               | 1,703                |
| Deferred income tax liabilities non-current   | 17,928              | 17,928               |
| Other long term liabilities   | 387                 | 387                  |
| <b>Total liabilities</b>  | <b>263,201</b>      | <b>267,471</b>       |

Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

|   |              |              |
|---|--------------|--------------|
| Redeemable noncontrolling interest  | (4,342)      | (3,488)      |
| Equity:   |              |              |
| AsiaInfo-Linkage, Inc. stockholders' equity:  |              |              |
| Common stock (100,000,000 shares authorized; \$0.01 par value; 78,946,911 shares and 78,865,818 shares issued as of March 31, 2013 and December 31, 2012, respectively; 72,780,411 shares and 72,699,318 shares outstanding as of March 31, 2013 and December 31, 2012, respectively) | 790          | 789          |
| Additional paid-in capital  | 861,345      | 858,711      |
| Treasury stock, at cost (6,166,500 shares as of March 31, 2013 and December 31, 2012, respectively)   | (87,746)     | (87,746)     |
| Retained earnings   | 193,159      | 179,058      |
| Statutory reserve   | 22,050       | 22,050       |
| Accumulated other comprehensive income  | 46,685       | 45,150       |
| Total AsiaInfo-Linkage, Inc. stockholders' equity   | 1,036,283    | 1,018,012    |
| Noncontrolling interest   | (244)        | 328          |
| Total equity  | 1,036,039    | 1,018,340    |
| Total liabilities, redeemable noncontrolling interest and equity  | \$ 1,294,898 | \$ 1,282,323 |

See accompanying notes to condensed consolidated financial statements.



**Table of Contents****ASIAINFO-LINKAGE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(U.S. dollars in thousands)

|  | <b>Three Months Ended March 31,</b> |              |
|--|-------------------------------------|--------------|
|  | <b>2013</b>                         | <b>2012</b>  |
| <b>Cash flows from operating activities:</b>   |                                     |              |
| Net income   | \$ 12,675                           | \$ 5,419     |
| <b>Adjustments to reconcile net income to net cash (used in) provided by operating activities:</b> |                                     |              |
| Depreciation and amortization of property and equipment  | 585                                 | 1,055        |
| Stock-based compensation expense   | 2,444                               | 2,425        |
| Amortization of other acquired intangible assets   | 9,795                               | 10,375       |
| Amortization of land use right   | 74                                  | 74           |
| Loss (gain) on disposal of property and equipment  | 19                                  | (109)        |
| Gain from sales of available-for-sale securities   | (48)                                | (2,027)      |
| Loss on equity method investment   | 271                                 | 0            |
| Provision of allowance for doubtful accounts   | 1,401                               | 658          |
| Gain on sale of discontinued operations  | (1,153)                             | 0            |
| <b>Changes in operating assets and liabilities:</b>  |                                     |              |
| Accounts receivable  | (7,999)                             | (20,427)     |
| Inventories  | (24,063)                            | (2,872)      |
| Other receivables  | (51)                                | (550)        |
| Deferred income taxes  | 6                                   | 2            |
| Income taxes recoverable   | (9,005)                             | 0            |
| Prepaid expenses and other current assets  | 967                                 | (6,616)      |
| Accounts payable   | (137)                               | 15,097       |
| Accrued expenses   | (1,993)                             | 5,827        |
| Deferred revenue   | (2,701)                             | (197)        |
| Accrued employee benefits  | (2,069)                             | (2,908)      |
| Other payables   | 242                                 | 925          |
| Other taxes payable  | 2,258                               | 2,714        |
| Income taxes payable   | 70                                  | 980          |
| <b>Net cash (used in) provided by operating activities</b>   | <b>(18,412)</b>                     | <b>9,845</b> |
| <b>Cash flows from investing activities:</b>   |                                     |              |
| Decrease in restricted cash  | 235                                 | 1,425        |
| Proceeds from sales of available-for-sale securities   | 2,540                               | 10,574       |
| Purchases of property and equipment  | (4,568)                             | (3,915)      |
| Proceeds from disposal of property and equipment   | 6                                   | 10           |
| Employee housing loans granted   | (44)                                | 0            |
| Purchase of long-term investment   | (2,100)                             | 0            |
| Proceeds from disposal of discontinued operations  | 1,153                               | 0            |
| <b>Net cash (used in) provided by investing activities</b>   | <b>(2,778)</b>                      | <b>8,094</b> |
| <b>Cash flows from financing activities:</b>   |                                     |              |
| Proceeds from exercise of stock options  | 185                                 | 13           |
| <b>Cash provided by financing activities</b>   | <b>185</b>                          | <b>13</b>    |
| Effect of exchange rate changes on cash and cash equivalents                                       | 1,050                               | 584          |

Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

|  |            |            |
|--|------------|------------|
| Net (decrease) increase in cash and cash equivalents | (19,955)   | 18,536     |
| Cash and cash equivalents at beginning of period     | 273,520    | 272,438    |
| Cash and cash equivalents at end of period           | \$ 253,565 | \$ 290,974 |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ASIAINFO-LINKAGE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)**

(U.S. dollars in thousands, except share amounts)

|   | Common Stock       |        | AsiaInfo-Linkage, Inc. Stockholders |                |                   |                   | Accumulated                | Total                                       | Noncontrolling Interest | Total Equity |
|---|--------------------|--------|-------------------------------------|----------------|-------------------|-------------------|----------------------------|---|-------------------------|--------------|
|   | Outstanding Shares | Amount | Additional Paid-in Capital          | Treasury Stock | Retained Earnings | Statutory Reserve | Other Comprehensive Income | AsiaInfo-Linkage, Inc. Stockholders' Equity |                         |              |
| <b>Balance at January 1, 2012</b>                           | 72,430,221         | \$ 786 | \$ 847,879                          | \$(87,746)     | \$ 146,527        | \$ 21,748         | \$ 47,124                  | \$ 976,318                                  | \$ 595                  | \$ 976,913   |
| Purchase of redeemable noncontrolling interest              | 0                  | 0      | (327)                               | 0              | 0                 | 0                 | 0                          | (327)                                       | 0                       | (327)        |
| Net income  | 0                  | 0      | 0                                   | 0              | 32,833            | 0                 | 0                          | 32,833                                      | (2,880)                 | 29,953       |
| Net loss attributable to redeemable noncontrolling interest | 0                  | 0      | 0                                   | 0              | 0                 | 0                 | 0                          | 0   | 2,613                   | 2,613        |
| Statutory reserve   | 0                  | 0      | 0                                   | 0              | (302)             | 302               | 0                          | 0   | 0                       | 0            |
| Other comprehensive income                                  | 0                  | 0      | 0                                   | 0              | 0                 | 0                 | (1,974)                    | (1,974)                                     | 0                       | (1,974)      |
| Stock option exercises                                      | 132,988            | 1      | 260                                 | 0              | 0                 | 0                 | 0                          | 261   | 0                       | 261          |
| Restricted stock units vesting                              | 136,109            | 2      | (1)                                 | 0              | 0                 | 0                 | 0                          | 1   | 0                       | 1            |
| Stock-based compensation (stock options)                    | 0                  | 0      | 8,077                               | 0              | 0                 | 0                 | 0                          | 8,077                                       | 0                       | 8,077        |
| Stock-based compensation (restricted stock units)           | 0                  | 0      | 1,754                               | 0              | 0                 | 0                 | 0                          | 1,754                                       | 0                       | 1,754        |
| Excess tax benefit from stock-based compensation            | 0                  | 0      | 1,069                               | 0              | 0                 | 0                 | 0                          | 1,069                                       | 0                       | 1,069        |
| <b>Balance at December 31, 2012</b>                         | 72,699,318         | \$ 789 | \$ 858,711                          | \$(87,746)     | 179,058           | \$ 22,050         | \$ 45,150                  | \$ 1,018,012                                | \$ 328                  | \$ 1,018,340 |

|                                   | Common Stock       |        | AsiaInfo-Linkage, Inc. Stockholders |                |                   |                   | Accumulated                | Total                                       | Noncontrolling Interest | Total Equity |
|-----------------------------------|--------------------|--------|-------------------------------------|----------------|-------------------|-------------------|----------------------------|---|-------------------------|--------------|
|                                   | Outstanding Shares | Amount | Additional Paid-in Capital          | Treasury Stock | Retained Earnings | Statutory Reserve | Other Comprehensive Income | AsiaInfo-Linkage, Inc. Stockholders' Equity |                         |              |
| <b>Balance at January 1, 2013</b> | 72,699,318         | \$ 789 | \$ 858,711                          | \$(87,746)     | \$ 179,058        | \$ 22,050         | \$ 45,150                  | \$ 1,018,012                                | \$ 328                  | \$ 1,018,340 |

Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

|   |                   |               |                   |                    |                   |                  |                  |                     |                 |                     |
|---|-------------------|---------------|-------------------|--------------------|-------------------|------------------|------------------|---------------------|-----------------|---------------------|
| Net income (loss)   | 0                 | 0             | 0                 | 0                  | 14,101            | 0                | 0                | 14,101              | (1,426)         | 12,675              |
| Net loss attributable to redeemable noncontrolling interest | 0                 | 0             | 0                 | 0                  | 0                 | 0                | 0                | 0                   | 854             | 854                 |
| Other comprehensive income                                  | 0                 | 0             | 0                 | 0                  | 0                 | 0                | 1,535            | 1,535               | 0               | 1,535               |
| Stock option exercises                                      | 23,014            | 0             | 191               | 0                  | 0                 | 0                | 0                | 191                 | 0               | 191                 |
| Restricted stock units vesting                              | 58,079            | 1             | (1)               | 0                  | 0                 | 0                | 0                | 0                   | 0               | 0                   |
| Stock-based compensation (stock options)                    | 0                 | 0             | 2,007             | 0                  | 0                 | 0                | 0                | 2,007               | 0               | 2,007               |
| Stock-based compensation (restricted stock units)           | 0                 | 0             | 437               | 0                  | 0                 | 0                | 0                | 437                 | 0               | 437                 |
| <b>Balance at March 31, 2013</b>                            | <b>72,780,411</b> | <b>\$ 790</b> | <b>\$ 861,345</b> | <b>\$ (87,746)</b> | <b>\$ 193,159</b> | <b>\$ 22,050</b> | <b>\$ 46,685</b> | <b>\$ 1,036,283</b> | <b>\$ (244)</b> | <b>\$ 1,036,039</b> |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**ASIAINFO-LINKAGE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**(In thousands, except share and per share amounts)**

**1. BASIS OF PREPARATION**

On July 1, 2010, AsiaInfo Holdings, Inc. ( AsiaInfo ) completed its combination with internet technology ( IT ) software and solutions provider Linkage Technologies International Holdings Limited through the acquisition of 100% of the outstanding share capital of its wholly-owned subsidiary, Linkage Technologies Investment Limited ( Linkage Technologies ), and was renamed AsiaInfo-Linkage, Inc. ( AsiaInfo-Linkage ). Starting in the third quarter of 2010, AsiaInfo-Linkage s financial statements consolidated the operating results and financial position of Linkage Technologies and its consolidated subsidiaries.

(a) The accompanying unaudited condensed consolidated financial statements include the accounts of AsiaInfo-Linkage, its subsidiaries, and its consolidated variable interest entities (the VIEs ) (collectively, the Company ). All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) for interim financial information and with the instructions to Form 10-Q and Regulation S-X, as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by US GAAP for completing annual financial statements. However, management believes that the disclosures are adequate to ensure the information presented is not misleading. US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingencies and results of operations. While management has based its assumptions and estimates on the facts and circumstances existing as of March 31, 2013, final amounts may differ from these estimates.

In the opinion of the management of the Company, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s audited financial statements included in its Form 10-K for the fiscal year ended December 31, 2012. The results of operations for the interim periods presented are not indicative of the operating results to be expected for any subsequent interim period or for the Company s fiscal year ending December 31, 2013.

AsiaInfo-Linkage uses the United States ( U.S. ) dollar as its reporting currency and functional currency. The financial records of the Company s People s Republic of China ( PRC ) subsidiaries and VIEs are maintained in Renminbi ( RMB ), their functional currency and the currency of the PRC. The financial records of the Company s subsidiaries and VIEs established in Southeast Asian countries are maintained in their local currencies. Their balance sheets are translated into U.S. dollars based on the exchange rate as of the balance sheet date. Their statements of operations are translated using an average exchange rate for the period. Translation adjustments are reflected in accumulated other comprehensive income in equity.

The RMB is not freely convertible into U.S. dollars or other currencies. All foreign exchange transactions involving RMB must take place through the People s Bank of China or other institutions authorized to buy and sell foreign currencies. The exchange rates adopted for foreign exchange transactions involving RMB are the rates of exchange quoted by the People s Bank of China.

No assets of the Company s consolidated VIEs are collateral for such VIEs obligations. There are no restrictions on the use of the VIEs assets to settle the Company s obligations. As of March 31, 2013 and December 31, 2012, respectively, there were \$3,137 and \$3,222 of liabilities of the Company s consolidated VIEs for which creditors (or beneficial interest holders) did not have recourse to the general credit of AsiaInfo-Linkage or its subsidiaries.

---

## **Table of Contents**

(b) The accompanying unaudited condensed consolidated financial statements have been prepared using the same accounting policies as used in the preparation of the Company's consolidated financial statements on Form 10-K for the fiscal year ended December 31, 2012.

### **Accounting Pronouncements**

#### ***Newly adopted accounting pronouncements***

In December 2011, the Financial Accounting Standard Board (the "FASB") issued an authoritative pronouncement related to disclosures about offsetting assets and liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB further clarifies that ordinary trade receivables and receivables are not in the scope of the authoritative pronouncement and the pronouncement applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of this guidance did not have a significant effect on the Company's consolidated financial statements.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements.

The guidance will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under US GAAP for other reclassification items (that are not required under US GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The guidance applies to all public and private companies that report items of other comprehensive income. Public companies are required to comply with the guidance for all reporting periods (interim and annual) effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company has adopted this guidance on January 1, 2013 and has presented the relevant details in the notes to the financial statements.

#### ***Recent accounting pronouncements not yet adopted***

In February 2013, the FASB issued an authoritative pronouncement related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance addresses the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this pronouncement is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the guidance in this pronouncement) and should disclose that fact. Early adoption is permitted. The Company is in the process of evaluating the effect of adoption of this guidance on the Company's consolidated financial statements.



## **Table of Contents**

In March 2013, the FASB issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

The guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The guidance should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the guidance, it should apply the guidance as of the beginning of the entity's fiscal year of adoption. The Company is in the process of evaluating the effect of adoption of this guidance on the Company's consolidated financial statements.

## **2. FINANCIAL INSTRUMENTS**

Financial instruments consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, other receivables, accounts payable, accrued expenses, other payables, income taxes payable and recoverable, other taxes payable and long-term investments.

Short-term investments are classified as available-for-sale securities and held-to-maturity securities, as discussed in Note 4. Certain long-term investments have been written down to their fair value, as discussed in Note 7. Fair value of other long-term investments is not disclosed because the fair value of the investments is not readily determinable.

The carrying values of other financial instruments approximate their fair values due to the short-term nature of these instruments. The Company does not use derivative instruments to manage risks.



**Table of Contents****3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid investments, which are unrestricted as to withdrawal or use, and which have remaining maturities of three months or less when purchased. The following table provides additional information concerning the breakdown of the Company's cash and cash equivalents:

|                                     | March 31, 2013 | December 31, 2012 |
|-------------------------------------|----------------|-------------------|
| Cash                                | \$ 98,164      | \$ 101,642        |
| Cash equivalents:                   |                |                   |
| Money market funds                  | 119,031        | 148,332           |
| Seven-day notice deposits           | 2,074          | 0                 |
| Others                              | 34,296         | 23,546            |
| <br>Total cash and cash equivalents | <br>\$ 253,565 | <br>\$ 273,520    |

**4. SHORT-TERM INVESTMENTS**

Short-term investments consist of available-for-sale securities and held-to-maturity securities. As of March 31, 2013 and December 31, 2012, the Company did not hold trading securities.

As of March 31, 2013 and December 31, 2012, the Company's held-to-maturity securities were carried at cost of \$12,762 and \$12,728, respectively. The held-to-maturity securities are either not allowed to be redeemed early or are subject to penalty for early redemption before their maturity. The carrying amounts of the held-to-maturity securities approximate their fair values due to their short-term nature, which are within one-year maturity period.

The following table provides additional information concerning the Company's available-for-sale securities, which consist principally of bond funds and corporate convertible notes issued by major financial institutions or companies. The available-for-sale securities have no contractual maturity dates and the Company can sell the investments at any time at the Company's decision.

|                             | Cost             | March 31, 2013         |                         | Fair value       | Cost             | December 31, 2012      |                         | Fair value       |
|-----------------------------|------------------|------------------------|-------------------------|------------------|------------------|------------------------|-------------------------|------------------|
|                             |                  | Gross unrealized gains | Gross unrealized losses |                  |                  | Gross unrealized gains | Gross unrealized losses |                  |
| Bond funds                  | \$ 24,564        | \$ 1,525               | \$ 0                    | \$ 26,089        | \$ 26,090        | \$ 938                 | \$ 0                    | \$ 27,028        |
| Corporate convertible notes | 0                | 0                      | 0                       | 0                | 900              | 0                      | 0                       | 900              |
| <b>Total</b>                | <b>\$ 24,564</b> | <b>\$ 1,525</b>        | <b>\$ 0</b>             | <b>\$ 26,089</b> | <b>\$ 26,990</b> | <b>\$ 938</b>          | <b>\$ 0</b>             | <b>\$ 27,928</b> |

The following table provides additional information on the realized gains of the sale of available-for-sale securities during the three-month periods ended March 31, 2013 and 2012, respectively. For purposes of determining gross realized gains, the cost of securities sold is based on specific identification.

|                               | Three Months Ended March 31, |                 |              |                  |                 |                 |
|-------------------------------|------------------------------|-----------------|--------------|------------------|-----------------|-----------------|
|                               | 2013                         |                 |              | 2012             |                 |                 |
|                               | Proceeds                     | Costs           | Gains        | Proceeds         | Costs           | Gains           |
| Available-for-sale securities | \$ 2,540                     | \$ 2,492        | \$ 48        | \$ 10,574        | \$ 8,547        | \$ 2,027        |
| <b>Total</b>                  | <b>\$ 2,540</b>              | <b>\$ 2,492</b> | <b>\$ 48</b> | <b>\$ 10,574</b> | <b>\$ 8,547</b> | <b>\$ 2,027</b> |



**Table of Contents**

The Company reported no impairment loss for its available-for-sale securities or held-to-maturity securities for the three-month periods ended March 31, 2013 or 2012.

**5. ACCOUNTS RECEIVABLE**

Accounts receivable balances included both billed and unbilled amounts. Revenue recognized in excess of billings is recorded as unbilled receivables. All billed and unbilled amounts are expected to be collected within one year. Accounts receivable balances included bank acceptance drafts receivable and commercial acceptance drafts receivable. These bank acceptance drafts and commercial acceptance drafts were non-interest bearing and were due within six months of issuance.

The Company generated service revenues by acting as a sales agent for International Business Machines Corporation ( IBM ) or its distributors, and for a few other hardware companies, for certain products sold to the customers of the Company (each, an IBM-Type Arrangement ). The components of the Company s accounts receivable as of March 31, 2013 and December 31, 2012, including amounts attributable to the IBM-Type Arrangements, were as follows:

|                                       | March 31, 2013       |                          |            | December 31, 2012    |                          |            |
|---------------------------------------|----------------------|--------------------------|------------|----------------------|--------------------------|------------|
|                                       | IBM-Type Arrangement | Non-IBM-Type Arrangement | Total      | IBM-Type Arrangement | Non-IBM-Type Arrangement | Total      |
| Billed accounts receivable            | \$ 10,351            | \$ 101,822               | \$ 112,173 | \$ 17,656            | \$ 87,830                | \$ 105,486 |
| Unbilled accounts receivable          | 27,169               | 153,887                  | 181,056    | 37,069               | 141,993                  | 179,062    |
| Bank acceptance drafts                | 0                    | 1,666                    | 1,666      | 0                    | 1,684                    | 1,684      |
| Commercial acceptance drafts          | 0                    | 1,806                    | 1,806      | 0                    | 2,462                    | 2,462      |
| Less: allowance for doubtful accounts | (235)                | (4,173)                  | (4,408)    | (291)                | (2,708)                  | (2,999)    |
| Total accounts receivable, net        | \$ 37,285            | \$ 255,008               | \$ 292,293 | \$ 54,434            | \$ 231,261               | \$ 285,695 |

**6. INVENTORIES**

The components of inventories, net as of March 31, 2013 and December 31, 2012 were as follows:

|                | March 31, 2013 | December 31, 2012 |
|----------------|----------------|-------------------|
| Deferred costs | \$ 12,365      | \$ 10,857         |
| Finished goods | 35,805         | 13,250            |
| Total          | \$ 48,170      | \$ 24,107         |

Deferred costs represent the costs incurred for the implementation phases of the projects outside of China, which provide multiple services and products (software, hardware, implementation, maintenance and managed services) to customers and include around 1-2 years system implementation periods. The deferred costs are to be reimbursed after the successful launch of the system, and were capitalized as inventories and expected to be transferred to cost of revenues upon revenue recognition.

**7. LONG-TERM INVESTMENTS**

(a) In October 2005, the Company acquired five percent of the outstanding equity interests of Hinge. The investment is accounted for using the cost method as the Company does not have a significant influence over the business and operations of Hinge. Due to the effects of the global financial crisis in 2008, Hinge s business dropped significantly during 2008 causing a significant decline in fair value of Hinge. The Company determined that its investment in Hinge became worthless as of December 31, 2008 and that the decline in the fair value was other-than-temporary. Consequently, the Company recognized an impairment loss of \$2,042, which is equal to the carrying amount of the investment after foreign exchange adjustment from the initial investment cost.



---

**Table of Contents**

(b) On September 12, 2008, the Company acquired 2,170,000 redeemable convertible Series B Preferred Shares of C-Platform Corporation ( C-Platform ), for a total cash consideration of \$4,696, including \$52 in transaction costs. The total consideration had been paid as of September 30, 2008. Following the transaction, the Company owned approximately 19.9% of C-Platform s issued and outstanding share capital, or 17% of C-Platform s share capital on a fully-diluted basis. In August 2009 and March 2011, the Company paid for and acquired \$167 and \$409 of convertible promissory notes from C-Platform, respectively. Such convertible promissory notes were accounted for as a short-term investment, available-for-sale securities. In March 2011, the Company converted \$167 of the convertible promissory notes into 78,023 of C-Platform s Series B Preferred Shares, which were accounted for as a long-term investment, and obtained the share certificate in July 2011, while \$409 of convertible promissory notes remained unconverted. Following the transaction, the Company owned approximately 19.61% of C-Platform s issued and outstanding share capital. In February 2012, the Company converted the remaining \$409 of convertible promissory notes into 191,008 of C-Platform s Series B Preferred Shares, which were accounted for as a long-term investment, and obtained the share certificate in April 2012. Following the transaction, the Company owned approximately 18.63% of C-platform s issued and outstanding shares. Because the Company does not have the ability to exercise significant influence over the operating and financial policies of C-Platform, the Company uses the cost method of accounting to record its investment in C-Platform.

C-Platform is a Cayman Islands company, which, through its subsidiaries in China, provides data operating services, a form of value-added telecommunication services, to telecommunications carriers in China. The Company believes that the transaction furthers its ongoing strategy of expanding its market leading telecommunications software solutions business in China.

(c) On November 30, 2010, the Company acquired 3,562,500 Series A-1 Preferred Shares of Santen Corporation ( Santen ), for a total cash consideration of \$950 for 9.5% of Santen s issued and outstanding voting share capital. Since the Company does not have the ability to exercise significant influence over the operating and financial policies of Santen, the Company uses the cost method of accounting to record its investment in Santen.

Santen is a Cayman Islands company, which, through its subsidiaries in China, provides a form of value-added telecommunication services, to telecommunications carriers in China. In 2011, the Company performed an assessment of the financial condition of Santen and determined there was an other-than-temporary decline of fair value. Based on the assessment, the Company provided for an impairment loss of \$950, which is equal to the carrying amount of the investment.

(d) On June 20, 2012, the Company s VIE Beijing Star VATS Technologies, Inc. ( Beijing Star VATS ) entered into an investment agreement with Beijing Naomi Technology Limited ( Naomi ), which provides personalized internet-based product recommendations based on customers on-line purchasing patterns. Pursuant to the investment agreement, Beijing Star VATS agreed to invest \$1,898 in Naomi in two tranches. The first tranche totaling \$947 was paid to Naomi in July 2012. The second tranche may be paid to Naomi upon its achievement of certain operational targets, if Beijing Star VATS then elects to invest, in its sole discretion.

The Company has adopted the equity method to recognize the investment as the Company, which holds a 40% voting interest in Naomi, is able to exercise significant influence over the operating and financial policies of Naomi. The Company has recognized a loss on equity method investment in the amount of \$271 for the three-month period ended March 31, 2013.

(e) On January 28, 2013, the Company acquired 9,566,716 Series A-1 Preferred Shares of GEO Holdings Ltd.( GEO ), for a total cash consideration of \$2,100 representing a 6.89% of GEO s issued and outstanding voting share capital. Since the Company does not have the ability to exercise significant influence over the operating and financial policies of GEO, the Company uses the cost method of accounting to record its investment in GEO.

**Table of Contents****8. GOODWILL**

The changes in the carrying amount of goodwill during the three months ended March 31, 2013 were as follows:

|  | Amount            |
|--|-------------------|
| <b>Gross amount:</b>                   |                   |
| Beginning balance at January 1, 2013:  | \$ 460,045        |
| Exchange differences                   | 23                |
| Ending balance at March 31, 2013:      | 460,068           |
| <b>Accumulated impairment loss:</b>    |                   |
| Beginning balance at January 1, 2013:  | (26,500)          |
| Exchange differences                   | (2)               |
| Ending balance at March 31, 2013:      | (26,502)          |
| <b>Goodwill, net at March 31, 2013</b> | <b>\$ 433,566</b> |

**9. OTHER ACQUIRED INTANGIBLE ASSETS, NET**

The carrying amounts of the components of other acquired intangible assets, net as of March 31, 2013 and December 31, 2012 were as follows:

|                                      | March 31, 2013        |                          |                             |                     | December 31, 2012     |                          |                             |                     |
|--------------------------------------|-----------------------|--------------------------|-----------------------------|---------------------|-----------------------|--------------------------|-----------------------------|---------------------|
|                                      | Gross carrying amount | Accumulated amortization | Foreign exchange difference | Net carrying amount | Gross carrying amount | Accumulated amortization | Foreign exchange difference | Net carrying amount |
| Core technologies                    | \$ 45,931             | \$ (22,315)              | \$ 0                        | \$ 23,616           | \$ 45,931             | \$ (20,498)              | \$ 0                        | \$ 25,433           |
| Trade names and trademarks           | 21,037                | (3,331)                  | 0                           | 17,706              | 21,037                | (3,059)                  | 0                           | 17,978              |
| Contract backlogs                    | 12,474                | (12,486)                 | 12                          | 0                   | 12,474                | (12,480)                 | 12                          | 6                   |
| Customer lists                       | 131                   | (143)                    | 12                          | 0                   | 131                   | (143)                    | 12                          | 0                   |
| Customer relationships               | 117,755               | (51,596)                 | 311                         | 66,470              | 117,755               | (47,287)                 | 311                         | 70,779              |
| Distribution networks                | 870                   | (870)                    | 0                           | 0                   | 870                   | (870)                    | 0                           | 0                   |
| Software                             | 1,721                 | (1,884)                  | 163                         | 0                   | 1,721                 | (1,884)                  | 163                         | 0                   |
| Non-compete agreements               | 1,249                 | (862)                    | 25                          | 412                 | 1,249                 | (810)                    | 25                          | 464                 |
| Corporate business agency agreements | 2,037                 | (1,825)                  | 5                           | 217                 | 2,037                 | (1,695)                  | 5                           | 347                 |
| Existing technology                  | 38,500                | (35,187)                 | 0                           | 3,313               | 38,500                | (31,978)                 | 0                           | 6,522               |
|                                      | \$ 241,705            | \$ (130,499)             | \$ 528                      | \$ 111,734          | \$ 241,705            | \$ (120,704)             | \$ 528                      | \$ 121,529          |

The future amortization expenses for the net carrying amount of intangible assets with definite lives as of March 31, 2013 are expected to be as follows:

|   |           |
|---|-----------|
| Nine-month period ended December 31, 2013 | \$ 22,809 |
| 2014                                      | 23,448    |
| 2015                                      | 21,130    |
| 2016                                      | 14,950    |
| 2017 and thereafter                       | 29,397    |

\$ 111,734

---

**Table of Contents**

**10. LAND USE RIGHT, NET**

From 2009, the Company completed the process to obtain a land use right for a piece of land in Beijing, on which the Company plans to construct a building for use as its new corporate headquarters. In October 2009, the Company entered into an agreement with Zhongguancun Software Park Development Co., Ltd. ( ZSPD ), pursuant to which ZSPD agreed to develop the land in preparation for construction of the building, for an aggregate consideration of approximately \$10,777, of which \$10,000 was paid in years 2009 and 2010 and \$777 was paid in 2011.

In connection with the agreement with ZSPD, the Company became eligible to enter into a land transfer agreement with relevant PRC government authorities in order to obtain the land use right with respect to such land. In May 2011, the Company entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which the Company would acquire the land use right, with a 50-year term, for a consideration of approximately \$2,870, plus a related local levy of \$111, paid in June and August 2011, respectively.

In respect of these agreements, the Company has recorded the aggregate amount of the consideration paid, amounting to \$14,739 after an exchange rate effect of \$981, as a payment for land use right. In November 2011, the Company obtained the National Land Use Right Certificate, issued by the Beijing Municipal Bureau of Land and Resources, and accordingly the Company records the payment for land use right at cost less accumulated amortization and amortizes the cost of the land use right on a straight-line basis over the 50-year term of the land use right certificate. As of March 31, 2013, the land use right amounted to \$14,247, which was the cost less the accumulated amortization of \$564 and plus an exchange rate gain of \$72.

**11. OTHER NON-CURRENT ASSETS**

In 2012, the Company launched an employee housing loan program which provides non-interest bearing loans to qualified employees with a five-year term. As of March 31, 2013, the total amount of loans granted under the program was \$1,655, and the loans due in more than one year classified in other non-current assets were \$1,399.

**12. ACCOUNTS PAYABLE**

Accounts payable included bank acceptance drafts payable of \$1,976 and \$3,427, and commercial acceptance drafts payable of \$89 and \$139 as of March 31, 2013 and December 31, 2012, respectively. These bank acceptance drafts and commercial acceptance drafts were non-interest bearing and were due within six months of issuance.

As of March 31, 2013 and December 31, 2012, the Company's accounts payable balance related to the IBM-Type Arrangements was \$63,421 and \$63,148, respectively, under which the Company is contractually obligated to pay its vendors only when its customers pay the Company.

**13. CREDIT FACILITIES**

As of March 31, 2013, the Company had credit facilities for working capital purposes totaling \$150,723 expiring on various dates up to March 2014, which were secured by bank deposits of \$33,546. As of March 31, 2013, unused credit facilities were \$122,007 and used credit facilities totaled \$28,716. The credit facilities were used to cover issuance of standby letters of credit for customers, borrowing of short-term bank loans and issuance of bank acceptance drafts payable to hardware suppliers.

As of December 31, 2012, the Company had credit facilities for working capital purposes totaling \$150,480 expiring on various dates up to March 2014, which were secured by bank deposits of \$33,482. As of December 31, 2012, unused credit facilities were \$122,802 and used credit facilities totaled \$27,678. The credit facilities were used to cover issuance of standby letters of credit to customers, borrowing of short-term bank loans and issuance of bank acceptance drafts payable to hardware suppliers.

In addition to the bank deposits pledged for the above credit facilities, the Company also collateralized bank deposits of \$5,858 and \$6,157 for the issuance of certain standby letters of credit and bank acceptance drafts, as of March 31, 2013 and December 31, 2012, respectively. Therefore, total bank deposits of \$39,404 and \$39,639 were presented as restricted cash in the consolidated balance sheets as of March 31, 2013 and December 31, 2012, respectively.



**Table of Contents****14. VALUE-ADDED TAXES REBATE**

Revenue from software products and solutions included the benefit of the rebate of value-added taxes on sales of software and services as part of the PRC government's policy of encouraging software development in the PRC. The rebate totaled \$1,763 and \$2,062 for the three months ended March 31, 2013 and 2012, respectively.

**15. INCOME TAXES**

The Company is subject to U.S. federal and state income taxes and the Company's subsidiaries and VIEs incorporated in the PRC are subject to PRC income taxes.

Reconciliation between the provision for income taxes (benefit) expense from continuing operation computed by applying the U.S. federal tax rate to income before income taxes and the actual provision for income taxes was as follows:

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2013</b>               | <b>2012</b> |
| U.S. federal rate  | 35%                       | 35%         |
| Difference between statutory rate and foreign effective tax rate             | (26%)                     | (30%)       |
| Subpart F income inclusion   | 4%                        | 6%          |
| Stock-based compensation   | 3%                        | 5%          |
| Tax effect due to reduced rate granted for 2011 and 2012                     | (162%)                    | 0           |
| Effect of change in repatriation of foreign earnings of certain subsidiaries | 14%                       | 0           |
| Change in valuation allowance  | 0                         | 4%          |
| Others   | 5%                        | 0           |
|  | (127%)                    | 20%         |

The tax rate for the three months ended March 31, 2013 was lower than that of the same period in 2012 mainly because two of the Company's subsidiaries, AsiaInfo-Linkage Technologies (China), Inc. ( AIBJ ) and Linkage-AsiaInfo Technologies (Nanjing), Inc., ( Linkage Nanjing ) recognized the tax benefit of 2011 and 2012 Key Software Enterprise ( KSE ) status upon receiving the Chinese government's approval this quarter. Pursuant to the relevant rules, a company with KSE status could apply a reduced income tax rate of 10%. These entities applied for this status for 2011 and 2012 and received approvals this quarter. Thus, the tax benefit was reflected in the three months ended March 31, 2013. Total income taxes recoverable related to reduced income tax rate granted was \$9,005 as of March 31, 2013. Meanwhile, the Company has accrued for PRC withholding taxes for Lenovo-AsiaInfo Technologies, Inc. ( LA ) regarding the repatriation of LA's earnings to its BVI located parent company in the three months ended March 31, 2013, there is no US tax impact and will not change the Company's intention that the earnings from the foreign operations will be permanently reinvested except to the extent the US taxes have been paid on certain earnings such as subpart F income.

Aggregate undistributed earnings of approximately \$318,615 on March 31, 2013 of the Company's PRC subsidiaries and VIEs that are available for distribution to the Company are considered to be indefinitely reinvested under US GAAP and, accordingly, no provision has been made for the Chinese withholding taxes on dividends that would be payable upon the distribution of those amounts to AsiaInfo-Linkage. Additionally, the Chinese tax authorities have clarified that distributions to be made out of retained earnings from prior to January 1, 2008 would not be subject to the Chinese withholding tax. Determination of the amount of any unrecognized deferred income tax liabilities on those earnings is not practicable.

The Company is subject to taxation in the U.S. and various states and foreign jurisdictions. There is no ongoing examination by any tax authority at this time. The Company did not change its position regarding recognition of uncertain tax benefit in the three months ended March 31, 2013, the movement in the unrecognized tax benefit was mainly due to the true up with relevant to AIBJ's rate change for 2011 and 2012. The Company's various tax years from 2003 to 2012 remain open in these taxing jurisdictions.

**Table of Contents****16. STOCK-BASED COMPENSATION****2002 Stock Option Plan and Prior Plans**

Under the Company's 2002 Stock Option Plan (the 2002 Plan), the Company was authorized to grant options for the purchase of up to 4,500,000 shares of common stock to employees, directors and consultants at prices not less than the fair market value on the date of grant for incentive stock options and nonqualified options. Shares as to which an option is granted under the 2002 Plan but remains unexercised at the expiration, forfeiture or other termination of such option may be the subject of the grant of further options. Prior to adopting the 2002 Plan, the Company adopted annual stock option plans for each of 1995, 1996, 1997, 1998, 1999 and 2000 (such plans, together with the 2002 Plan, are referred to hereinafter as the Option Plans).

The vesting periods of the options under the Option Plans are determined based on individual stock option agreements. Options granted prior to 1998 generally vested and became exercisable over three years at an equal annual rate. Exercise terms of options granted in 1998, 1999, 2000 and 2002 are substantially similar to those of options granted prior to 1998 except that the vesting and exercise periods were generally over four years at an annual rate of 20%, 20%, 30% and 30% for the 1999 plan and were generally over four year cliffs at an annual rate of 25% for the 2000 plan, and are generally no more than four years at an annual rate of 25% from the date of grant for the 2002 Plan.

The Option Plans as of March 31, 2013 and activities during the three months ended March 31, 2013 were as follows:

|   | Number of shares | Weighted average<br>exercise price per share | Aggregate<br>intrinsic value |
|---|------------------|--|------------------------------|
| Outstanding, January 1, 2013                          | 200,248          | \$ 5.41                                      |                              |
| Forfeited   | (500)            | 3.42   |                              |
| Exercised   | (2,582)          | 5.21   |                              |
| Outstanding, March 31, 2013                           | 197,166          | \$ 5.42                                      | \$ 1,272                     |
| Exercised and expected to exercise,<br>March 31, 2013 | 197,166          | 5.42   | 1,272                        |
| Exercisable, March 31, 2013                           | 197,166          | \$ 5.42                                      | \$ 1,272                     |

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$11.87 per share of the Company's common stock on the last trading day in the Company's first fiscal quarter of 2013 (March 28, 2013).

Total intrinsic value of options exercised for each of the three months ended March 31, 2013 and 2012 was \$16 and \$32, respectively.

As of March 31, 2013, although there was no unrecognized stock-based compensation cost relating to the Option Plans, the Option Plans still had unexercised options, which are expected to be exercised over a weighted-average vesting period of 1.26 years.

**2005 Stock Incentive Plan - Restricted Stock Units (RSUs)**

Under the 2005 Stock Incentive Plan (the 2005 Plan), the Company was authorized to grant participants restricted stock units, stock options, or other types of equity incentives. The number of shares authorized for issuance was (a) 600,000 shares plus (b) any authorized shares of common stock that, as of April 21, 2005, were available for issuance under the Company's 2002 Stock Option Plan, or that thereafter became available for issuance under the 2002 Stock Option Plan in accordance with its terms.

An RSU is an agreement to issue stock at the time the award vests. These units vest on an annual basis equally over four years, 25% on each anniversary of the grant date. The fair value of each RSU is measured on the grant date based on the market price of the stock on the grant date. The Company also has the right at its sole discretion to pay cash in lieu of the issuance of vested shares of common stock. No such cash payment right was exercised by the Company.

**Table of Contents**

RSUs under the 2005 Plan as of March 31, 2013 and activities during the three months ended March 31, 2013 were as follows:

|  | Number of shares | Weighted average<br>grant date fair<br>value per share |
|--|------------------|--|
| Restricted stock units unvested at January 1, 2013 | 41,850           | \$ 22.60   |
| Vested   | (10,700)         | 24.52  |
| Restricted stock units unvested at March 31, 2013  | 31,150           | \$ 21.95   |

Total intrinsic values of RSUs vested for the three months ended March 31, 2013 and 2012 were \$117 and \$293, respectively.

As of March 31, 2013, there was \$488 of unrecognized stock-based compensation cost related to RSUs, which is expected to be recognized into the consolidated statements of operations over a weighted-average vesting period of 0.83 years. To the extent the actual forfeiture rate is different from the original estimate, actual stock-based compensation cost related to these awards may be different from the expectation.

**2008 Stock Incentive Plan Performance-based Restricted Stock Units (PSUs)**

On February 25, 2008, the Board of Directors of the Company authorized the 2008 Stock Incentive Plan, as amended (the 2008 Plan). The 2008 Plan was subsequently approved by the Company's stockholders at the 2008 annual meeting of stockholders. Under the 2008 Plan, the Company may grant participants restricted stock awards, stock options, or other types of equity incentives. The number of shares authorized for issuance is (a) 2,000,000 shares plus (b) any authorized shares of the Company's common stock that, as of February 25, 2008, were available for issuance under the Company's 2005 Plan, or that thereafter become available for issuance under the 2005 Plan in accordance with its terms.

As of March 31, 2013, an aggregate of 1,689,400 PSUs granted under the 2008 Plan had fully vested based on certain performance criteria or been forfeited.

**2011 Stock Incentive Plan**

In February 2011, the Board of Directors of the Company authorized the 2011 Stock Incentive Plan (the 2011 Plan). The 2011 Plan was subsequently approved by the Company's stockholders on April 21, 2011 at the 2011 annual meeting of stockholders. Under the 2011 Plan, the Company is authorized to grant participants restricted stock awards, stock options, or other types of equity incentives. The number of shares authorized for issuance was (a) 7,501,752 shares plus (b) any authorized shares of the Company's common stock that, as of April 21, 2011, were available for issuance under the 2008 Plan, or that thereafter become available for issuance under the 2008 Plan in accordance with its terms.

**RSUs under 2011 Plan**

As of March 31, 2013, 235,367 RSUs were granted under the 2011 Plan. Each RSU represents a contingent right to receive one share of common stock. Some awards vest in two equal installments on the 6-month and 12-month anniversaries of the grant date, and the other awards vest on annual basis equally over four years, 25% on each anniversary of the grant date. The fair value of each RSU is measured on the grant date based on the market price of the stock on the grant date. The Company also has the right, in its sole discretion, to pay cash in lieu of the issuance of vested shares of common stock. No such cash payment right was exercised by the Company.

RSUs under the 2011 Plan as of March 31, 2013 and activities during the three months ended March 31, 2013 were as follows:

|  | Number of shares | Weighted average<br>grant date fair<br>value per share |
|--|------------------|--|
| Restricted stock units unvested at January 1, 2013 | 137,758          | \$ 12.86   |
| Vested   | (47,379)         | 10.92  |

## Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

|   |        |    |       |
|---|--------|----|-------|
| Restricted stock units unvested at March 31, 2013 | 90,379 | \$ | 13.88 |
|---|--------|----|-------|

The total intrinsic value of RSUs vested for the three months ended March 31, 2013 and 2012 was \$526 and \$491, respectively.

As of March 31, 2013, there was \$899 of unrecognized stock-based compensation cost related to RSUs, which is expected to be recognized into the consolidated statements of operations over a weighted-average vesting period of 0.78 years. To the extent the actual forfeiture rate is different from original estimate, actual stock-based compensation related to these awards may be different from these expectations.

**Table of Contents**

In December 2011, the Compensation Committee of the Board of Directors of the Company, pursuant to the 2011 Plan, approved the grant of stock options to the Company's executive officers and employees.

**Stock Options under 2011 Plan**

Stock options under 2011 Plan as of March 31, 2013 and activities during the three months ended March 31, 2013 were as follows:

|  | Number of shares | Weighted average<br>exercise<br>price per share | Aggregate<br>intrinsic<br>value |
|--|------------------|---|---------------------------------|
| Outstanding, January 1, 2013                       | 6,467,950        | \$ 8.84   |                                 |
| Granted  | 28,000           | 11.02   |                                 |
| Exercised  | (20,475)         | 8.73  |                                 |
| Forfeited  | (43,650)         | 8.73  |                                 |
| <br>   |                  |   |                                 |
| Outstanding, March 31, 2013                        | 6,431,825        | \$ 8.85   | \$ 19,550                       |
| <br>   |                  |   |                                 |
| Exercised and expected to exercise, March 31, 2013 | 6,431,825        | 8.85  | 19,550                          |
| Exercisable, March 31, 2013                        | 1,416,760        | \$ 8.77   | \$ 4,408                        |

The aggregate intrinsic value was calculated as the difference between the exercise price of the underlying awards and the closing stock price of \$11.87 per share of the Company's common stock on the last trading day in the Company's first fiscal quarter of 2013 (March 28, 2013).

Total intrinsic value of options exercised for the three months ended March 31, 2013 and 2012 was \$57 and nil, respectively.

As of March 31, 2013, there was \$25,677 of unrecognized stock-based compensation cost relating to the 2011 Plan, which is expected to be exercised over a weighted-average vesting period of 8.71 years. To the extent the actual forfeiture rate is different from original estimate, actual stock-based compensation related to these awards may be different from these expectations.

The amount of stock-based compensation attributable to cost of revenues, sales and marketing, general and administrative expenses, and research and development is included in those line items in the accompanying consolidated statements of operations. For the three months ended March 31, 2013 and 2012, stock-based compensation expense related to the stock options and stock units were as follows:

|   | Three Months Ended<br>March 31, |          |
|---|---------------------------------|----------|
|   | 2013                            | 2012     |
| Cost of revenues                        | \$ 835                          | \$ 851   |
| Sales and marketing                     | 620                             | 590      |
| General and administrative              | 720                             | 684      |
| Research and development                | 269                             | 300      |
| <br>                                    |                                 |          |
| Total stock-based compensation expenses | \$ 2,444                        | \$ 2,425 |

**17. FAIR VALUE MEASUREMENTS*****Measured on recurring basis***

The Company measured the cash equivalents and the short-term investments available-for-sale securities at fair value on a recurring basis as of March 31, 2013 and December 31, 2012.

## Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

Cash equivalents are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market.

The Company uses quoted prices in active markets for identical assets (Level 1 investments) to determine the fair value of available-for-sale securities. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then the Company uses quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly, which are included in Level 2 investments.

**Table of Contents**

The Company did not have Level 2 investments as of March 31, 2013 and December 31, 2012.

The Company did not have Level 3 investments as of March 31, 2013. The Level 3 investments as of December 31, 2012 were convertible promissory notes issued by GEO. The notes bore an annual interest rate of 8% after 90 days of the issuing date, and were due and paid to the purchaser or may be converted into shares of the Company's Series A Preferred Shares or other similar equity securities, upon execution of such securities purchase and sales agreements.

As the convertible notes were issued by a private company and not traded on the market, in determining the fair value of the Level 3 investments, the Company used the principal amount of the investments, and the interest accrued on a quarterly basis after 90 days of the issuing date. The Company also considered the credit risk related to the issuer and believes such method provide a reasonable fair value of the investments.

The available-for-sale securities measured and recorded at fair value as of March 31, 2013 and December 31, 2012 were as follows:

|                             | March 31, 2013<br>Fair Value Measurements at the Reporting Date<br>Using              |   |  |                  | December 31, 2012<br>Fair Value Measurements at the Reporting Date<br>Using           |   |  |                  |
|-----------------------------|---|---|--|------------------|---|---|--|------------------|
|                             | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Instruments<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Balance | Quoted Prices in<br>Active<br>Markets<br>for<br>Identical<br>Instruments<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Balance |
| Bond funds                  | \$ 26,089   | \$ 0  | \$ 0   | \$ 26,089        | \$ 27,028   | \$ 0  | \$ 0   | \$ 27,028        |
| Corporate convertible notes | 0   | 0   | 0  | 0                | 0   | 0   | 900  | 900              |
| <b>Total</b>                | <b>\$ 26,089</b>  | <b>\$ 0</b>   | <b>\$ 0</b>  | <b>\$ 26,089</b> | <b>\$ 27,028</b>  | <b>\$ 0</b>   | <b>\$ 900</b>                                      | <b>\$ 27,928</b> |

The following table presents changes in Level 3 investments measured on a recurring basis for the three-month periods ended March 31, 2013 and 2012:

|  | Three Months Ended March 31, |               |
|--|------------------------------|---------------|
|  | 2013                         | 2012          |
| Beginning balance                        | \$ 900                       | \$ 10,985     |
| Purchases                                | 0                            | 0             |
| Redemption                               | (900)                        | (8,547)       |
| Realized gain                            | 0                            | (2,027)       |
| - Included in other income               | 0                            | (40)          |
| - Included in other comprehensive income | 0                            | (1,987)       |
| Unrealized loss                          | 0                            | 0             |
| Exchange difference                      | 0                            | (2)           |
| <b>Ending balance</b>                    | <b>\$ 0</b>                  | <b>\$ 409</b> |

**Measured on non-recurring basis**

The Company's financial assets and liabilities measured at fair value on a non-recurring basis include acquired assets and liabilities at initial recognition based on Level 3 inputs in connection with business acquisitions.





**Table of Contents**

The Company measured the fair value of the purchased intangible using the cost, income approach-excess earnings or with & without valuation methods. These purchased intangible assets are considered Level 3 assets because the Company used unobservable inputs, such as forecasted financial performance of the acquired business and discount rates, to determine the fair value of these purchased assets.

**18. EARNINGS PER SHARE**

The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations:

|  | Three Months Ended<br>March 31, |            |
|--|---------------------------------|------------|
|  | 2013                            | 2012       |
| Amounts attributable to AsiaInfo-Linkage, Inc. common stockholders (numerator)                     |                                 |            |
| Income from continuing operations, net of taxes  | \$ 12,948                       | \$ 6,369   |
| Income from discontinued operations, net of taxes  | 1,153                           | (7)        |
| Net income   | \$ 14,101                       | \$ 6,362   |
| Shares (denominator):  |                                 |            |
| Weighted average common stock outstanding  |                                 |            |
| Basic  | 72,742,215                      | 72,473,455 |
| Dilutive effect of employee stock options and restricted stock units                               | 134,735                         | 252,099    |
| Diluted  | 72,876,950                      | 72,725,554 |
| Earnings per share   |                                 |            |
| Net income from continuing operations attributable to AsiaInfo-Linkage, Inc. common stockholders   |                                 |            |
| Basic  | \$ 0.18                         | \$ 0.09    |
| Diluted  | \$ 0.18                         | \$ 0.09    |
| Net income from discontinued operations attributable to AsiaInfo-Linkage, Inc. common stockholders |                                 |            |
| Basic  | \$ 0.01                         | \$ 0.00    |
| Diluted  | \$ 0.01                         | \$ 0.00    |
| Net income attributable to AsiaInfo-Linkage, Inc. common stockholders                              |                                 |            |
| Basic  | \$ 0.19                         | \$ 0.09    |
| Diluted  | \$ 0.19                         | \$ 0.09    |

The Company had 6,493,475 and 6,486,143 common stock options outstanding for the three month periods ended March 31, 2013 and 2012, respectively, which could potentially dilute earnings per share (EPS) in the future, but were excluded in the computation of diluted EPS in those periods, as their exercise prices were above the average market values in such periods.

**19. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table presents the changes in each component of accumulated other comprehensive income, net of tax, for the three months ended March 31, 2013 and 2012 respectively:

|  | Three Months Ended March 31, 2013 |                           |           |
|--|-----------------------------------|---------------------------|-----------|
|  | Unrealized gain (loss)<br>on      |                           |           |
|  | available-for-sale<br>securities  | Foreign currency<br>items | Total     |
| Beginning balance  | \$ (405)                          | \$ 45,555                 | \$ 45,150 |
| Other comprehensive income before reclassifications                | 523                               | 1,053                     | 1,576     |
| Amounts reclassified out of accumulated other comprehensive income | (41)                              | 0                         | (41)      |
| Net current-period other comprehensive income                      | 482                               | 1,053                     | 1,535     |
| Ending balance   | \$ 77                             | \$ 46,608                 | \$ 46,685 |

**Table of Contents**

|  | Three Months Ended March 31, 2012 |                           |           |
|--|-----------------------------------|---------------------------|-----------|
|  | Unrealized gain (loss)<br>on      |                           | Total     |
|  | available-for-sale<br>securities  | Foreign currency<br>items |           |
| Beginning balance  | \$ 2,211                          | \$ 44,913                 | \$ 47,124 |
| Other comprehensive income before reclassifications                | 294                               | 545                       | 839       |
| Amounts reclassified out of accumulated other comprehensive income | (1,723)                           | 0                         | (1,723)   |
| Net current-period other comprehensive income                      | (1,429)                           | 545                       | (884)     |
| Ending balance   | \$ 782                            | \$ 45,458                 | \$ 46,240 |

The following table presents the reclassification out of accumulated other comprehensive income for the three months ended Mar 31, 2013 and 2012 respectively:

|   | Three Months Ended March 31 |         |            |       |            |         |
|---|-----------------------------|---------|------------|-------|------------|---------|
|   | Before Tax                  |         | Tax Effect |       | Net of Tax |         |
|   | 2013                        | 2012    | 2013       | 2012  | 2013       | 2012    |
| Net unrealized gain on investment securities:                     |                             |         |            |       |            |         |
| Net unrealized gain arising during the period                     | 635                         | 394     | 112        | 100   | 523        | 294     |
| Less: reclassification adjustment for gain realized in net income | 48                          | 2,027   | 7          | 304   | 41         | 1,723   |
| Net unrealized gain (loss) on investment securities               | 587                         | (1,633) | 105        | (204) | 482        | (1,429) |

**20. GOVERNMENT SUBSIDIES**

Government subsidies include amounts granted by government authorities to encourage research and development for high-technology companies. Subsidies are recognized in the Company's financial statements once the approvals are obtained from the relevant government authorities and the Company has the right to receive the subsidies.

If the subsidy is granted in connection with a specific project, it would be recorded as a reduction to cost of revenues. Otherwise, the subsidy is recorded as other operating income. For the three-month periods ended March 31, 2013 and 2012, the Company recognized government subsidies as a reduction to costs of revenues of \$0 and \$1,891, respectively, and government subsidies in other operating income of nil and nil, respectively.

---

## **Table of Contents**

### **21. SEGMENT INFORMATION**

The Company's operations are currently organized into five business units by three telecommunication carriers in China, multiple Cable Television providers in China, and telecommunication carriers internationally. In accordance with FASB guidance, each of these five business units represents an operating segment, of which discrete financial information is available and is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The five operating segments are aggregated into one reportable segment because they meet the aggregation criteria of FASB and have the same economic characteristics.

The Company's chief operating decision maker is the Company's Business Committee, comprising the Company's Chief Executive Officer, Chief Financial Officer, Chief Technology Officer and senior management team.

The Company primarily operates in the PRC and substantially all of the Company's long-lived assets are located in the PRC.

### **22. COMMITMENTS AND CONTINGENCIES**

#### ***Commitments***

In May 2011, the Company entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources, under which the Company acquired land use right for a 50-year term. Pursuant to the agreement, the Company has committed a minimum of \$19,902 for capital expenditures to the building construction project, to commence construction by April 30, 2012, and to complete construction by April 30, 2014.

In November 2011, the Company entered into a software purchase agreement with IBM, through which the Company is committed to purchase software from IBM and is expected to be paid from 2012 to 2014. As of March 31, 2013, the Company committed to purchase software from IBM amounting to \$3,190. The committed purchase amounts are \$1,595 and \$1,595 for the next two years respectively.

#### ***Litigation***

In October 2012, a putative stockholder of the Company filed a civil action, derivatively on behalf of the Company, against the members of the board of directors and certain officers. The action was filed in the United States District Court for District of Delaware. The plaintiff asserted claims for breach of fiduciary duty, corporate waste, and unjust enrichment in connection with grants of stock options allegedly made in an amount that violates purported limitations set forth in the 2011 Plan. The plaintiff requested rescission of the option grants in question, an award of unspecified damages to the Company, certain other equitable and injunctive relief, and an award of plaintiff's costs and disbursements, including legal fees. In January 2013, the Company and the individual defendants filed various motions to dismiss the action, and briefing on the motion was filed in March and April 2013. While the Company cannot guarantee the outcome of these proceedings, the Company believes that the final results will not have a material effect on its consolidated financial condition, results or operations, or cash flows.

### **23. NONCONTROLLING INTEREST**

(a) On September 25, 2008, the Company established a new subsidiary, Shanghai Xinjia Science & Technology Co., Ltd ( AISH ) in Shanghai, with a total capital contribution of \$732. The Company and Ms. Yao Yuan, the other shareholder of AISH, hold 90% and 10% of AISH's share capital, respectively. AISH mainly provides software and services to telecommunication carriers in Shanghai. The 10% of AISH's share capital held by Ms. Yao Yuan was recorded as noncontrolling interest.

(b) In October 2009, the Company acquired 60% of the share capital of SmartCall Holding Limited and the remaining 40% of the share capital was recorded as noncontrolling interest.

(c) In September 2011, the Company's VIE Beijing Star VATS acquired 60% of the share capital of Chengdu Yalian Zhixing Technology Ltd. The remaining 40% of the share capital was recorded as noncontrolling interest.

### **24. REDEEMABLE NONCONTROLLING INTEREST**

(a) In October 2009, the Company formed AsiaInfo International Pte Ltd ( AIP ) with Alpha Growth International Pte Ltd, a company incorporated under the laws of Singapore ( AGI ), in Singapore. AIP has total issued and paid-up share capital of \$4,000. The Company contributed \$2,800 to AIP in cash, which represents 70% of AIP's share capital. AGI contributed \$1,200 to AIP in cash, which represents 30% of

## Edgar Filing: ASIAINFO-LINKAGE, INC - Form 10-Q

AIP's share capital. AIP serves as an exclusive agent to market and distribute the Company's telecommunications software and service solutions in certain regions in Southeast Asia until December 2014 or such other date as the Company and AGI may mutually agree. The Company has consolidated AIP since its incorporation.

**Table of Contents**

Pursuant to the agreement with AGI, the Company granted a put option to AGI to sell, while the Company received a call option from AGI to purchase, the 30% equity interest held by AGI. The options are exercisable within a 30 day-period from the date of issuing the audit report of AIP's 2013 financial statements. The exercise prices for the call and the put options of the 30% equity interest held by AGI are the same and are determined by a formula based on the performance of AIP for years 2012 and 2013.

(b) In May 2010, the Company, through a subsidiary of the Company, acquired an 80% equity interest in Hangzhou Zhongbo for an aggregate purchase price of \$7,068 in cash. Hangzhou Zhongbo provides IT solutions to broadcasting operators in China.

Pursuant to the agreement with the other shareholder of Hangzhou Zhongbo, the Company granted a put option to such shareholder of Hangzhou Zhongbo to sell, while the Company received a call option from such shareholder of Hangzhou Zhongbo to purchase, the 20% equity interest held by such shareholder in Hangzhou Zhongbo. The options were exercisable after December 31, 2011. The exercise prices for the call and the put options of the 20% equity interest held in Hangzhou Zhongbo were the same and were determined by a formula based on the performance of Hangzhou Zhongbo for years 2010 and 2011.

In June 2012, the Company exercised the call option and purchased the remaining 20% equity interest in Hangzhou Zhongbo for a consideration of \$1,034. As a result, the Company holds 100% equity interest in Hangzhou Zhongbo.

These noncontrolling interests were recorded outside of the permanent equity on the consolidated balance sheets initially at the fair value of the noncontrolling interests as of the date of incorporation or the date of acquisition of these subsidiaries. Subsequently, each noncontrolling interest was carried at the higher of (1) the initial carrying amount, increased or decreased for the noncontrolling interest's share of net income or loss or (2) the accreted amount to the expected redemption value. The change of the carrying amounts of the redeemable noncontrolling interest is recognized as net income attributable to noncontrolling interest in the consolidated statements of operations. For the three months ended March 31, 2013, the amount charged to net income attributable to noncontrolling interests was \$854, which represents the noncontrolling interests' share of net loss of these subsidiaries.

|                                     | <b>Redeemable Noncontrolling<br/>Interest</b> |         |
|-------------------------------------|---|---------|
| <b>Balance at December 31, 2012</b> | \$  | (3,488) |
| Net loss                            |   | (854)   |
| Adjustment to redemption value      |   | 0       |
| <b>Balance at March 31, 2013</b>    | \$  | (4,342) |

**25. SUBSEQUENT EVENTS**

On June 20, 2012, the Company's VIE Beijing Star VATS entered into an investment agreement with Naomi. Pursuant to the investment agreement, Beijing Star VATS agreed to invest \$1,898 in Naomi in two tranches. The first tranche totaling \$947 was paid to Naomi in July 2012. In April 2013, the second tranche totaling \$951 was paid to Naomi.

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Except for historical information, the statements contained in this quarterly report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The Private Securities Litigation Reform Act of 1995, or the Reform Act, contains certain safe harbors regarding forward-looking statements. Certain of the forward-looking statements include management's expectations, intentions and beliefs with respect to our growth, our operating results, the nature of the industry in which we are engaged, our business strategies and plans for future operations, our needs for capital expenditures, capital resources and liquidity, and similar expressions concerning matters that are not historical facts. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. All forward-looking statements included in this report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. These cautionary statements are being made pursuant to the provisions of the Reform Act with the intention of obtaining the benefits of the safe harbor provisions of the Reform Act. The factors that could cause actual results to differ materially include, but are not limited to, the factors discussed under the heading "Risk Factors" in our Form 10-K for the year ended December 31, 2012 and in the reports we file with the U.S. Securities and Exchange Commission, or the SEC, from time to time.

In this report, the Company, we, us and our refer to AsiaInfo-Linkage, Inc. and its subsidiaries and consolidated variable interest entities, or VIEs, Linkage refers to Linkage Technologies International Holdings Limited, and AsiaInfo refers to the Company prior to its combination with Linkage.

**Overview**

We are the leading provider of high-quality telecommunications software solutions and information technology, or IT, products and services in China. Our solutions, products and services include business support systems, or BSS, containing billing and customer relationship management, or CRM, and other software and services. Our software and services enable our customers to build, maintain, operate, manage and improve their communications infrastructure. Our largest customers are the major telecommunications carriers in China and their provincial subsidiaries, including China Mobile Communications Corporation, or China Mobile, China United Telecommunications Corporation, or China Unicom, and China Telecommunications Corporation, or China Telecom.

We are also the leading provider in China's cable television BSS market, providing billing and CRM software and services. We won several important contracts to provide modernized BSS for consolidated provincial-level cable operators, such as Jiangsu Cable TV and Zhejiang Cable TV, as well as operators in Chongqing and Beijing. We believe the successful implementation of these projects has brought additional value to our customers and positions us well for future cable industry consolidation among multiple regional operators, which we expect to accelerate in the coming years.

We are also expanding our footprint in the international telecommunications software and services market by leveraging the valuable experience gained from our Chinese telecommunications carriers. In 2011, we won new contracts from customers in Southeast Asia, including Malaysia, Nepal and others, after an detailed selection process against other industry leading vendors, which is a significant achievement given the long selling cycle of business support software. In June 2012, we opened our first European based sales office in Cambridge, United Kingdom as part of our ongoing initiative to expand operations across Europe, Middle East and Africa (EMEA) markets. In 2013, we plan to continue to expand our international business through both our Southeast Asia offices and our European office by signing new telecommunication carrier customers and by providing additional software and services to current customers.

We commenced our operations in the United States, or the U.S., in 1993 and moved our major operations from the U.S. to China in 1995. We began generating significant network solutions revenues in 1996 and significant software revenues in 1998. We conduct the bulk of our business through our operating subsidiaries, most of which are Chinese companies. On July 1, 2010, we completed the combination with Linkage and, in connection with the closing, changed our corporate name to AsiaInfo-Linkage, Inc.

**Table of Contents**

We have derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of large telecommunications customers, such as China Mobile, China Unicom and China Telecom and their respective provincial subsidiaries. The following table shows our revenues and percentage of total revenues derived from those three customers (and their respective provincial subsidiaries) for the three months ended March 31, 2013 and 2012.

|               | Three Months Ended March 31,  |                                 |                               |                                 |
|---------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
|               | 2013                          |                                 | 2012                          |                                 |
|               | Revenues<br>(in<br>thousands) | Percentage of Total<br>Revenues | Revenues<br>(in<br>thousands) | Percentage of Total<br>Revenues |
| China Mobile  | \$ 63,666                     | 45%                             | \$ 64,831                     | 52%                             |
| China Unicom  | 43,612                        | 30%                             | 33,957                        | 28%                             |
| China Telecom | 25,347                        | 18%                             | 22,330                        | 18%                             |
| Total         | \$ 132,625                    | 93%                             | \$ 121,118                    | 98%                             |

As a result of our reliance on our key customers in the telecommunications industry, our operating results are influenced by governmental spending policies in that sector. Historically, there have been a number of state-mandated restructurings in China's telecommunications sector. Some of these restructurings have led to cancellation or delays in telecommunications-related capital expenditures that have negatively impacted our operating results in certain periods. Other restructurings have caused our revenues to increase as carriers have increased spending on software and IT infrastructure designed to increase their competitiveness. Any future restructurings affecting our major telecommunications customers could have an adverse impact on our business.

For financial reporting purposes, we present our revenues as follows:

Software products and solutions;

Services; and

Third-party hardware.

**Recent Developments**

On January 20, 2012, we announced the receipt of a non-binding proposal letter from Power Joy (Cayman) Limited, or Power Joy, a wholly owned subsidiary of CITIC Capital China Partners II, L.P., pursuant to which Power Joy proposed to acquire all of our outstanding shares of common stock in cash at a price that represents a premium over the stock price. A special committee of the board of directors, or the Special Committee, was formed to consider the proposal and any potential alternative transactions. The Special Committee retained Shearman & Sterling LLP as its legal counsel and Goldman Sachs (Asia) L.L.C. as its financial advisor to assist it in consideration of such matters. On March 26, 2012, we announced that the Special Committee would solicit interest from, and engage in discussions with, other potential qualified interested parties regarding a potential transaction involving us, and to evaluate any proposals it receives. However, there can be no assurance that any definitive offer will ultimately be made, that any agreement will be executed, or that any transaction will be approved or consummated.

On January 29, 2013, we announced the successful implementation of our Veris Billing system for the Code Division Multiple Access, or CDMA, network of Nepal Doorsanchar Company Limited, or Nepal Telecom, the largest telecommunications operator in Nepal. This first phase of what is a comprehensive software upgrade for Nepal Telecom was completed within four months from the start of the project and provided fully convergent billing and real-time online charging for pre-paid and postpaid subscribers on the carrier's CDMA network.

On February 5, 2013, we announced that our advanced Veris suite of Business Support Systems and solutions are available in the markets of Europe, the Middle East and Africa. Our comprehensive Veris portfolio, which is already deployed in Asia, includes the core solutions of Veris Billing, Veris CRM and Veris BI. These products, and some of their industry-leading individual components, can be deployed as standalone



modules or as complete, pre-integrated solutions.

---

## **Table of Contents**

On April 8, 2013, we announced that two of our subsidiaries in China, AsiaInfo-Linkage Technologies (China), Inc., or AIBJ and Linkage-AsiaInfo Technologies (Nanjing), Inc., or Linkage Nanjing had been formally granted Key Software Enterprise, or KSE, status under China's Enterprise Income Tax Law. As a result, AIBJ and Linkage Nanjing became eligible for a preferential corporate income tax rate of 10% for the years 2011 and 2012. KSE status is currently granted every two years after formal government review. We applied for KSE status on behalf of AIBJ and Linkage Nanjing in October of 2012, when the relevant PRC tax authorities released the application requirements for the years 2011 and 2012. As there had been no guarantee that KSE status would ultimately be granted, we had previously used a rate of 15% in computing the 2011 and 2012 taxes for both AIBJ and Linkage Nanjing.

### **Revenues**

We recognize revenue pursuant to the requirements of the Financial Accounting Standards Board, or the FASB, Accounting Standards Codification, or the ASC, when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable, and other applicable revenue recognition guidance and interpretations.

Our revenue is derived from three primary sources: (i) software licenses and related services, including implementation, customization and integration, post-contract customer support, or PCS, training and consulting; (ii) professional services for systems design, planning, consulting, and system integration; and (iii) the procurement of hardware on behalf of customers.

Our multiple-element arrangements relate to our software licenses and related services, including implementation, customization and integration, PCS, training, consulting and third-party hardware procurement.

**Software products and solutions revenue.** Revenues of software licenses and related services, including implementation, customization and integration, PCS, training and consulting, are recognized using the percentage of completion method over the service period based on the relationship of costs already incurred to the total estimated costs to be incurred because such customer orders require significant production, modifications, or customization of the software. For China projects we consider total project costs (labor costs and other related costs) in calculating the percentage of completion and recognize cost of sales on an actual basis with no deferral of project costs, including pre-contract costs. Software arrangements with significant production, modifications, or customization are sold with bundled third-party hardware and PCS services. Because PCS services have never been sold separately in these arrangements, they do not have stand-alone fair value or vendor-specific objective evidence, or VSOE, of fair value. The percentage of completion method of revenue recognition is therefore applied to the period from the start of the significant production, modifications, or customization through the last element delivered, which is typically the end of the bundled PCS services period. Revisions in estimated contract costs are made in the period in which the circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts. For certain projects outside of China, we defer revenue and cost until the revenue recognition criteria have been met.

**Service revenue.** Revenues of professional services for systems design, planning, consulting, and system integration are recognized when the services are performed.

In addition, we generate service revenues by acting as a sales agent for International Business Machines Corporation, or IBM, or its distributors, and a few other hardware vendors, for certain products sold to our customers, which we refer to as our IBM-Type Arrangements. The service fee under the IBM-Type Arrangements is determined as a percentage of the gross contract amount. We have evaluated the criteria outlined in guidance issued by the Financial Accounting Standards Board, or the FASB, regarding reporting revenue gross as principal versus net as an agent, in determining whether to record as revenues the gross amount billed to our customers and related costs or the net amount earned after deducting hardware costs paid to the vendor, even though we bear inventory risks after the vendor ships the products to us and we bill gross amounts to our customers. We record the net amount earned after deducting hardware costs as agency service revenue because (1) the vendor is the primary obligor in these transactions, (2) we have no latitude in establishing the prices, (3) we are not involved in the determination of the product specifications, (4) we do not bear credit risk because we are contractually obligated to pay the vendor only when the customers pay us, and (5) we do not have the right to select suppliers.

**Table of Contents**

**Third-party hardware revenue.** Revenues of the procurement of hardware on behalf of customers, if not bundled with other arrangements, are recognized when shipped and customer acceptance obtained, if all other revenue recognition criteria are met. Costs associated with revenues are recognized when incurred. If bundled with other arrangements, we generally bifurcate the third-party hardware from the development services and recognize the hardware revenue upon customer acceptance using estimated prices based on cost plus a margin, which we believe to be the fair value of the selling price.

**Net revenue.** Although we report our revenue on a gross basis, inclusive of hardware acquisition costs, we manage our business internally based on revenues net of hardware costs, or net revenues, a non-GAAP measure. We believe this approach is consistent with our strategy of providing our customers with high value IT professional services and, where efficient, outsourcing lower-end services such as hardware acquisition and installation. The following table shows our revenue breakdown on this basis and reconciles our net revenues to total revenues:

|  | <b>Three Months Ended March 31,</b> |                   |
|--|-------------------------------------|-------------------|
|  | <b>2013</b>                         | <b>2012</b>       |
| Revenues net of hardware costs:                    |                                     |                   |
| Software products and solutions revenue            | \$ 129,473                          | \$ 114,062        |
| Service revenue                                    | 5,866                               | 6,954             |
| Third-party hardware revenue net of hardware costs | 384                                 | 134               |
| <b>Total revenues net of hardware costs</b>        | <b>135,723</b>                      | <b>121,150</b>    |
| Total hardware costs                               | 7,302                               | 2,547             |
| <b>Total revenues</b>                              | <b>\$ 143,025</b>                   | <b>\$ 123,697</b> |

We believe total revenues net of hardware costs more accurately reflects our core business, which is the provision of software solutions and services, and provides transparency to our investors. We believe this measure provides transparency to our investors because it is the measure used by our management to evaluate the competitiveness and performance of our business. In addition, third-party hardware revenue tends to fluctuate from period to period depending on the requirements of our customers. As a result, a presentation that excludes hardware costs allows investors to better evaluate the performance of our core business.

**Cost of Revenues**

**Software products and solutions costs.** Software products and solutions costs consist primarily of three components:

packaging and written manual expenses for our proprietary software products and solutions;

compensation and travel expenses for the professionals involved in modifying, customizing or installing our software products and solutions and in providing consultation, training and support services; and

software license fees paid to third-party software providers for the right to sublicense their products to our customers as part of our solutions offerings.

The costs associated with designing and modifying our proprietary software are classified as research and development, or R&D, expenses as incurred.

The costs incurred for the implementation phases of projects outside of China, which provide multiple services and products (software, hardware, implementation, maintenance and managed services), are deferred and capitalized as inventories during the system implementation phase, and transferred to cost of sales upon revenue recognition.

**Service costs.** Service costs consist primarily of compensation and travel expenses for the professionals involved in designing and implementing IT services, management consulting and network solutions projects.



## **Table of Contents**

**Third-party hardware costs.** We recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due. However, in large projects we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements.

Amortization of intangible assets, depreciation of properties and equipment, and rental expenses are also included in cost of revenue.

## **Operating Expenses**

Operating expenses consist of sales and marketing expenses, general and administrative expenses and R&D expenses. Amortization of acquired intangible asset expenses consistently comprise a significant portion of our total operating expenses.

Sales and marketing expenses include compensation expenses for employees in our sales and marketing departments, third-party advertising expenses, marketing events, sales commissions and sales consulting fees, as well as the depreciation and amortization expenses allocated to our sales and marketing departments.

R&D expenses relate to the development of new software and the modification of existing software. We expense such costs as they are incurred.

General and administrative expenses include compensation expenses for employees in our general and administrative departments, third-party professional services fees, and the depreciation expenses allocated to our general and administrative departments.

## **Taxes**

Except for certain hardware procurement and resale transactions, we conduct substantially all of our business through our Chinese subsidiaries and VIEs. To a smaller degree, our operations in Southeast Asia are conducted through our joint venture in Singapore and its subsidiaries. Prior to the enactment of China's current Enterprise Income Tax Law, or the EIT Law, which became effective on January 1, 2008, foreign-invested enterprises, or FIEs, were generally subject to a 30% state enterprise income tax plus a 3% local income tax. However, most of our operating subsidiaries in China, as FIEs, were entitled to tax holidays or certain preferential tax treatments, which thus reduced their effective rate of income tax to 15% or lower in some cases. Since the EIT Law became effective, all resident enterprises are subject to a flat 25% income tax rate, unless they are otherwise eligible for certain preferential tax treatments under the new rules.

Pursuant to implementation and transition rules related to the EIT Law, certain of our subsidiaries in China may enjoy a 15% preferential tax rate if they are qualified as High-and-New Technology Enterprises, or HNTE, while other of our subsidiaries and VIEs became subject to the 25% income tax rate. HNTE status is valid for three years. At the conclusion of the three-year period, the qualifying enterprise has the option to renew its HNTE status for an additional three years through a simplified application process if such enterprise's business operations continue to qualify for HNTE status. After the first six years, the enterprise would be subject to a new application process in order to renew its HNTE status. We received HNTE certification for AsiaInfo-Linkage Technologies (China), Inc., or AIBJ, AsiaInfo-Linkage Technologies (Chengdu), Inc., or AICD, and Linkage-AsiaInfo Technologies (Nanjing), Inc., or Linkage Nanjing, at the end of 2011 and the beginning of 2012, respectively, which allows those companies to compute tax at a reduced 15% tax rate from January 1, 2011 until December 31, 2013. As such, we computed tax at a reduced 15% tax rate for AIBJ, AICD and Linkage Nanjing for the estimated annual effective tax rate of 2013.

AIBJ and Linkage Nanjing were approved as Key Software Enterprises, or KSEs, and were eligible for a further reduction in their tax rate to 10% for 2011 and 2012. AIBJ and Linkage Nanjing will apply for 2013 KSE status once the government authorities in charge release the application requirements. As such, we have computed our current quarterly taxes based on the tax rate of 15% for both AIBJ and Linkage Nanjing.

---

## **Table of Contents**

Sales of hardware procured in China are subject to a 17% value added tax, or VAT. Most of our sales of hardware procured outside of China are made through our U.S. parent company, AsiaInfo-Linkage, Inc., or one of its subsidiaries, Hong Kong AsiaInfo-Linkage Technologies Ltd., and thus are not subject to the VAT. We effectively pass VAT on hardware sales through to our customers and do not include VAT in revenue reported in our financial statements. Companies that develop their own software and register the software with relevant authorities in China are generally entitled to a VAT refund. If the net amount of the VAT payable exceeds 3% of software sales and software-related services, the excess portion of the VAT is refundable immediately. The policy was extended by a new tax circular issued in January 2011. The benefit of the VAT rebate is included in software revenue. Historically, the VAT refund received has not been taxable for income tax purposes as long as the refund is used for R&D activities. However, according to a tax circular issued by the PRC State Administration of Taxation in 2009, although the VAT refund would remain non-taxable, all the expenses associated with the refund are not tax deductible for income tax purposes. This circular also stipulates that any VAT refund not spent within the five-year period following its receipt must be added back to taxable income in the sixth year. In accordance with instructions from certain local tax jurisdictions, we report VAT refund as taxable income in calculating our income tax provision for certain years.

Our PRC subsidiaries and VIEs are subject to business tax at the rate of 3% or 5%, respectively, on certain types of service revenues, which are presented in our statements of operations net of business tax incurred.

Effective from December 1, 2010, our PRC subsidiaries and VIEs are also subject to Urban Maintenance and Construction Tax as well as Education Fee Surcharge at the rate of 7% and 3% of VAT and business taxes paid, respectively.

In January 2011, the State Council issued a circular providing an exemption from business tax for eligible software companies on software development and testing, system integration, consulting and maintenance services. The circular also retains various policies granted by previous circulars, including the VAT rebate on sales of software. The implementation guidance of this new circular has not been issued as of the date of this report, although implementation guidance for value-added tax rebates on sales of software was issued in October 2011.

In July 2012, the Ministry of Finance and the State Administration of Taxation jointly issued a circular regarding the pilot collection of VAT in lieu of business tax in certain areas and industries in the PRC. Such VAT pilot program is to be phased in Beijing, Jiangsu, Anhui, Fujian, Guangdong, Tianjin, Zhejiang, and Hubei between September and December 2012. Starting from September 1, 2012, certain subsidiaries and VIEs became subject to VAT at the rates of 6% or 3%, on certain service revenues which were previously subject to business tax.

We are also subject to U.S. income taxes on revenues generated in the U.S., including revenues from our limited hardware procurement activities through our U.S. parent company, AsiaInfo-Linkage, Inc., and interest income earned in the U.S. .

## **Foreign Exchange**

A majority of our revenues and expenses relating to hardware sales and the software and service components of our business are denominated in RMB. The value of our shares will be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while our shares are traded in U.S. dollars. In addition, as we pursue our global strategy, we need to settle transactions in various currencies of Southeast Asian countries, expect to continue to do so in future, and expect that such activities may create similar foreign exchange risk associated with the currencies of these jurisdictions. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion. We actively monitor our exposure to these risks and adjust our cash position in the RMB and the U.S. dollar when we believe such adjustments will reduce our foreign exchange risks and otherwise appropriate. We did not engage in any significant foreign exchange transactions during the three-month period ended March 31, 2013.

As of March 31, 2013, approximately 91.1%, or \$267.0 million, of our cash, cash equivalents and restricted cash were RMB-denominated and approximately 8.4%, or \$24.6 million, were U.S. dollar-denominated. Pursuant to the rate of exchange quoted by People's Bank of China as of March 31, 2013, the exchange rate between the U.S. dollar and the RMB was US\$1.00 = RMB6.2689, compared to the rate of US\$1.00=RMB6.2943 as of March 31, 2012.

**Table of Contents****Critical Accounting Policies**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States, or US GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amount of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and judgments, including those related to revenues and cost of revenues under customer contracts, bad debts, inventories, short-term investments, long-term investments, income taxes, goodwill and other intangible assets, stock options, and litigation. We base our estimates and judgments on historical experience and on various other factors that we believe are reasonable. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies reflect the more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Revenue recognition.** We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable, and other applicable revenue recognition guidance and interpretations.

Our revenue is derived from three primary sources: (i) software licenses and related services, including implementation, customization and integration, post-contract customer support, or PCS, training and consulting; (ii) professional services for systems design, planning, consulting, and system integration; and (iii) the procurement of hardware on behalf of customers.

Our multiple-element arrangements relate to our software licenses and related services, including implementation, customization and integration, PCS, training, consulting and third-party hardware procurement.

Revenues of software licenses and related services, including implementation, customization and integration, PCS, training and consulting, are recognized using the percentage of completion method over the service period based on the relationship of costs already incurred to the total estimated costs to be incurred because such customer orders require significant production, modifications, or customization of the software. For China projects, we consider total project costs (labor costs and other related costs) in calculating the percentage of completion and recognize cost of sales on an actual basis with no deferral of project costs, including pre-contract costs. Software arrangements with significant production, modifications, or customization are sold with bundled third-party hardware and PCS services. Because PCS services have never been sold separately in these arrangements, they do not have stand-alone fair value or VSOE of fair value. The percentage of completion method of revenue recognition is therefore applied to the period from the start of the significant production, modifications, or customization through the last element delivered, which is typically the end of the bundled PCS services period. Revisions in estimated contract costs are made in the period in which the circumstances requiring the revision become known. Provisions, if any, are made currently for anticipated losses on uncompleted contracts. For certain projects outside of China, we defer revenue and cost until the revenue recognition criteria have been met.

Revenues of professional services for systems design, planning, consulting, and system integration are recognized when the services are performed.

In addition, we generated service revenues by acting as a sales agent pursuant to the IBM-Type Arrangements. The service fee under our IBM-Type Arrangements is determined as a percentage of the gross contract amount. We have evaluated the criteria outlined in guidance issued by FASB regarding reporting revenue gross as principal versus net as agent, when determining whether we would record as revenues the gross amount billed to our customers and related costs or the net amount earned after deducting hardware costs paid to the vendor, even though we bear inventory risks after the vendor ships the products to us and we bill gross amounts to our customers. We record the net amount earned after deducting hardware costs as agency service revenue because (1) the vendor is the primary obligor in these transactions, (2) we have no latitude in establishing the prices, (3) we are not involved in the determination of the product specifications, (4) we do not bear credit risk because we are contractually obligated to pay the vendor only when the customers pay us, and (5) we do not have the right to select suppliers.

Revenues of the procurement of hardware on behalf of customers, if not bundled with other arrangements, are recognized when shipped and customer acceptance obtained, if all other revenue recognition criteria are met. Costs associated with revenues are recognized when incurred. If bundled with other arrangements, we generally bifurcate the third-party hardware from the development services and recognize the hardware revenue upon customer acceptance using estimated prices based on cost plus a margin, which we believe to be the fair value of the selling price.

## **Table of Contents**

Revenue recognized in excess of billings is recorded as unbilled receivables and is included in accounts receivable. Amounts billed but not yet collected are recorded as billed receivables and are included in accounts receivable. All billed and unbilled amounts are expected to be collected within one year. Billings for installation and customization services are rendered based on agreed upon milestones specified in customer contracts. Billings in excess of revenues recognized are recorded as deferred revenue.

**Income taxes.** Deferred income taxes are provided using the asset and liability method. Under this method, deferred income taxes are recognized for tax credits and net operating losses available for carry-forwards and significant temporary differences. Deferred tax assets and liabilities are classified as current or non-current based upon the classification of the related asset or liability in the financial statements or the expected timing of their reversal if they do not relate to a specific asset or liability.

We record a valuation allowance to reduce our deferred tax assets to the amount that we believe is more likely than not to be realized. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of their recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance would be charged to income in the period such change occurred.

The impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

The HNTE certificates of AIBJ, AICD and Linkage Nanjing were renewed at the end of 2011 and the beginning of 2012, respectively, which allows those companies to continue to enjoy a 15% preferential tax rate from January 1, 2011 until December 31, 2013.

AIBJ and Linkage Nanjing were KSEs eligible for a 10% tax rate for 2011 and 2012. AIBJ and Linkage Nanjing will apply for 2013 KSE status once the government authorities in charge release the application requirements. As such, we have computed our current quarterly taxes based on the tax rate of 15% for both AIBJ and Linkage Nanjing.

Under the EIT Law, a resident enterprise, which may include an enterprise established outside of the PRC with management located in the PRC, will be subject to PRC income tax. We believe we and our subsidiaries established outside the PRC are not resident enterprises under the EIT law.

**Intangible assets and goodwill.** Intangible assets consist of certain identifiable intangible assets resulting from business acquisitions and primarily comprise customer relationships, trade names and trademarks, core technologies and existing technology. We amortize these intangible assets over their respective estimated useful lives, which range from 0.5 to 19 years. Intangible assets are reviewed for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable based upon the estimated undiscounted cash flows.

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheets as goodwill. Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

Goodwill is tested for impairment at the reporting unit level (operating segment or one level below an operating segment) on an annual basis (October 1 for us) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in stock prices, business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.



**Table of Contents**

Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. The estimation of fair value of each reporting unit using a discounted cash flow, or DCF, methodology also requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, estimation of the useful life over which cash flows will occur, and determination of our weighted average cost of capital. The estimates used to calculate the fair value of a reporting unit change from year to year based on operating results and market conditions. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for the reporting unit.

In September 2011, the FASB issued an authoritative pronouncement related to testing goodwill for impairment. The guidance permits us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is then tested following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill. We did not believe that the fair value of our reporting unit would clearly be in excess of its carrying value in the first quarter of 2013. Therefore, we chose not to perform the qualitative assessment but directly performed the two-step goodwill impairment test.

As of December 31, 2012, the estimated fair value of the reporting unit was 8% in excess of its carrying value. As of March 31, 2013, there was no material decrease in the estimated fair value of the reporting unit, and there was also no material decrease in the excess of the estimated fair value over its carrying value.

We recognized no impairment loss on goodwill in the first quarter of 2013 and 2012.

**Property and equipment, net** Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives as follows:

|  |                                      |
|--|--------------------------------------|
| Furniture, fixtures and electronic equipment | 5 years                              |
| Motor vehicles                               | 5 years                              |
| Leasehold improvements                       | Shorter of the lease term or 5 years |
| Software                                     | 3 years                              |
| Building                                     | 20 to 47 years                       |
| Self-constructed building improvements       | 10 years                             |

Construction in progress primarily represents the cost to build the property and equipment. In addition to cost under the construction contracts and external cost directly related to the construction of such property and equipment, including equipment installation and shipping costs, are capitalized. Depreciation is recorded when the property and equipment are ready for their intended use. As of March 31, 2013, the construction in progress was \$15,417.

**Impairment of long-term and short-term investments.** We review our long-term and short-term investments for other-than-temporary impairment in accordance with relevant accounting literature, based on the specific identification method. We consider available quantitative and qualitative evidence in evaluating potential impairment of our investments. If the cost of an investment exceeds the investment's fair value, we consider, among other factors, general market conditions, government economic plans, the duration and the extent to which the fair value of the investment is less than the cost, and our intent and ability to hold the investment. In view of the declines of fair value below the carrying cost of certain short-term and long-term investments, we performed an evaluation to determine whether any of the declines were other-than-temporary. We determined that there were no fair value declines in long-term and short-term investments, and thus made no provision for impairment losses, in the first quarter of 2013 and 2012, respectively.

---

**Table of Contents****Consolidated Results of Operations**

**Revenues.** Total revenues were \$143.0 million for the three-month period ended March 31, 2013, representing a 15.6% increase over the same period in 2012 and a 13.7% decrease sequentially. The year-over-year increase was primarily the result of healthy demand from China's three telecom carriers while the sequential decrease was mainly due to seasonality of our business as the carriers determined their billing and CRM software requirements for the rest of the year, as well as to the overall slowdown associated with China's Lunar New Year celebrations.

Software products and solutions revenue was \$129.5 million for the three-month period ended March 31, 2013, representing an increase of 13.5% over the comparable period in 2012 and a 10.9% sequential decrease. The year-over-year increase was primarily attributable to a 32.7% increase in revenue from China Unicom and its provincial subsidiaries and an 18.0% increase in revenue from China Telecom and its provincial subsidiaries. The sequential decrease was primarily attributable to a 25.0% decrease in revenue from China Mobile and its provincial subsidiaries.

Service revenue was \$5.9 million for the three-month period ended March 31, 2013, representing a decrease of 15.6% over the comparable period in 2012 and a 37.3% sequential decrease. The year-over-year decrease was primarily attributable to a 13.6% decrease in revenue from China Mobile and its provincial subsidiaries and a 27.2% decrease in revenue from China Unicom and its provincial subsidiaries. The sequential decrease was primarily attributable to a 44.2% decrease in revenue from China Mobile and its provincial subsidiaries and a 55.0% decrease in revenue from China Telecom and its provincial subsidiaries.

Third-party hardware revenue was \$7.6 million for the three-month period ended March 31, 2013, representing a year-over-year increase of 186.7% and a sequential decrease of 30.4%. Third-party hardware revenue, which represented 5.4% of our total revenues in the three-month period ended March 31, 2013, is not our business focus and is dependent on the changing demands of our Chinese telecom carriers on a contract-by-contract basis.

During the first quarter of 2013, sales to our top three customers, China Mobile, China Unicom and China Telecom (and their respective provincial subsidiaries), accounted for approximately 92.7% of our total revenue, with China Mobile, China Unicom, and China Telecom representing 44.5%, 30.5% and 17.7%, respectively.

**Cost of revenues.** Our cost of revenues was \$93.4 million for the three-month period ended March 31, 2013, representing an increase of 24.1% over the comparable period in 2012. Cost of revenues for the three-month period ended March 31, 2013 decreased 4.7% compared to the preceding quarter. The year-over-year increase in cost of revenues was primarily attributable to an increase in employee compensation, which was mainly due to the hiring of approximately 1,070 additional implementation engineers, as well as general wage inflation.

**Gross profit margin.** Our gross profit margin for the three-month period ended March 31, 2013 was 34.7%, compared to 39.2% in the comparable period in 2012 and 40.9% in the preceding quarter. The year-over-year decrease in gross margin was primarily attributable to an increase in headcount of approximately 1,070 professionals, including the reclassification of approximately 180 R&D engineers into delivery teams, as well as wage inflation which resulted in increased total compensation costs. The sequential decrease was primarily due to the seasonality of our business with decreased project delivery costs but was partially offset by the reclassification of approximately 180 R&D engineers into delivery teams.

**Operating expenses.** Our operating expenses were \$46.7 million for the three-month period ended March 31, 2013, representing an increase of 1.7% over the comparable period in 2012 and decrease of 11.3% sequentially. The slight year-over-year increase was primarily attributable to increased R&D expenses relating to product development, product standardization, and delivery improvements, which was partially offset by a decrease in sales and marketing expenses. The sequential decrease primarily reflects a decrease in R&D expenses, mainly due to the reclassification of our approximately 180 R&D engineers into delivery teams, as well as a decrease in sales and marketing expenses, mainly due to the seasonality of our business.

**Table of Contents**

Sales and marketing expenses were \$18.6 million for three-month period ended March 31, 2013, representing decreases of 8.5% over the comparable period in 2012 and 24.4% sequentially. The year-over-year decrease in sales and marketing expenses was primarily the result of a strengthening of expense controls. The sequential decrease in sales and marketing was mainly due to decreases in total sales commissions of \$2.4 million, marketing related events of \$3.1 million and amortization of intangible assets related to the Linkage merger of \$0.6 million.

General and administrative expenses were \$8.3 million for the three-month period ended March 31, 2013, representing an increase of 10.3% over the comparable period in 2012 and a sequential increase of 19.1%. In the first quarter of 2013, we recorded an accrual of allowance for doubtful accounts of \$1.4 million, which was an increase of \$0.7 million on a year-over-year basis and an increase of \$2.2 million on a sequential basis. In the fourth quarter of 2012, we recorded third party professional service expenses of \$1.6 million, which partially offset the increase of allowance of doubtful accounts of \$2.2 million in the first quarter of 2013.

R&D expenses were \$19.8 million for the three-month period ended March 31, 2013, representing an increase of 9.6% over the comparable period in 2012 and a 12.0% sequential decrease. The year-over-year increase in R&D expenses was primarily driven by anticipated overseas expansion, product standardization and delivery improvements, as well as the wage inflation that was partially offset by the reclassification of approximately 180 R&D engineers into delivery teams. The sequential decrease in R&D was mainly due to a reclassification of approximately 180 R&D engineers into delivery related work.

In the fourth quarter of 2012, we received and recorded a government subsidy of \$1.4 million, mainly in recognition of our high-tech software innovations. We did not receive a government subsidy in the first quarter of 2013.

**Other income, net.** Other income, including interest income, dividend income, gain from sales of short-term investments, net of other expenses, was \$2.2 million for the three-month period ended March 31, 2013, representing an decrease of 47.2% over the comparable period in 2012 and a decrease of 24.9% sequentially. The year-over-year decrease in other income mainly reflected the sales of short-term investments in the first quarter of 2012. The sequential decrease in other income was mainly attributable to dividend income from a specific investment product in the fourth quarter of 2012.

**Income from continuing operations.** Net income from continuing operations was \$11.5 million for the three-month period ended March 31, 2013, representing an increase of 112.3% over the comparable period in 2012 and a decrease of 23.5% sequentially.

**Income from discontinued operations.** In January 2013, we sold our Lenovo Computer business for approximately \$1.2 million. The Lenovo Computer business has been reflected as discontinued operations since the year ended December 31, 2012.

**Net income attributable to AsiaInfo-Linkage, Inc.** Net income attributable to AsiaInfo-Linkage, Inc. for the three-month period ended March 31, 2013 was \$14.1 million, or \$0.19 per basic share, compared to \$6.4 million, or \$0.09 per basic share, for the comparable period in 2012, and \$15.6 million, or \$0.21 per basic share, for the previous quarter.

**Liquidity and Capital Resources**

Our liquidity and capital resources are provided mainly from cash collection from customers resulting from our core operating activities. Our capital requirements are primarily working capital requirements related to hardware sales and costs associated with the expansion of our business, such as research and development and sales and marketing expenses. We recognize hardware costs in full upon delivery of the hardware to our customers. In order to minimize our working capital requirements, we generally obtain from our hardware vendors payment terms that are timed to permit us to receive payment from our customers for the hardware before our payments to hardware vendors are due. With respect to our billing cycle, we generally require our customers to pay 80% to 90% of the invoice value of the hardware upon delivery. We typically place orders for hardware against back-to-back orders from customers and seek favorable payment terms from hardware vendors. However, we sometimes obtain less favorable payment terms from our customers, thereby increasing our working capital requirements. In addition to this careful management of our billing cycle, we have also historically financed working capital and other financing requirements through private placements of equity securities, our initial public offering in 2000 and, to a limited extent, bank loans.

---

**Table of Contents**

On December 4, 2009, we executed the Business Combination Agreement to combine our business with the business of Linkage through our acquisition of 100% of the outstanding share capital of Linkage Technologies, and we completed the combination with Linkage on July 1, 2010.

We had cash and cash equivalents, restricted cash and short-term investment totaling \$331.8 million as of March 31, 2013 as compared to \$353.8 million as of December 31, 2012. The decrease was mainly a result of our negative operating cash flow during the period.

Our net cash used in operating activities for the three-month period ended March 31, 2013 was \$18.4 million, which reflected our net income of \$12.7 million adjusted by net non-cash related expenses, such as amortization, depreciation and stock-based compensation expenses, totalling of \$13.4 million and a net increase in the components of our working capital of \$44.5 million. Accounts receivable as of March 31, 2013 was \$292.3 million, consisting of \$111.8 million in billed receivables and \$180.5 million in unbilled receivables. Our billed receivables are recorded based on agreed-upon milestones included in our customer contracts.

Our days of sales outstanding, or DSO, as of March 31, 2013 was 154 days, which was a decrease from 155 days as of March 31, 2012 and an increase from 144 days as of December 31, 2012. When calculating our DSO, we have adjusted for the net effect of the IBM-Type Arrangements. The increase in DSO from December 31, 2012 to March 31, 2013 was primarily attributable to a \$6.6 million increase in accounts receivable compared to December 31, 2012, which mainly reflects the business trend of our customers paying amounts due at the end of the year. Our DSO is impacted by a variety of factors that impact customer payment cycles, including the outcome of customer negotiations regarding payment terms, the relative maturity of the Customer Relations Management, Billing, Business Intelligence or other technology involved in a particular project, the systems used by the customer, geographic region, the scale of the project, and other factors. In addition, in a year we typically perform thousands of contracts for dozens of customers (comprising the major telecom carriers in the PRC and their provincial subsidiaries), and the payment terms of each contract can vary based on these factors.

Income tax recoverable as of March 31, 2013 was \$9.0 million, which was reflected the 10% preferential tax rate granted to AIBJ and Linkage Nanjing for their KSE status in the first quarter of 2013.

Our net cash used in investing activities for the three-month period ended March 31, 2013 was \$2.8 million. This was primarily due to the purchase of property, plant and equipment for \$4.6 million and a \$2.1 million purchase of long-term investment, which was partially offset by \$2.5 million in proceeds from our sales of short-term investments, a \$1.2 million in proceeds from our sales of discontinued operations, and a \$0.2 million decrease in restricted cash.

Our net cash provided by financing activities for the three-month period ended March 31, 2013 was \$0.2 million, primarily due to proceeds from the exercise of stock options.

As of March 31, 2013, we had total credit facilities of \$150.7 million for working capital purposes, expiring on various dates up to March 2014, which were secured by bank deposits of \$33.5 million. As of March 31, 2013, unused credit facilities were \$122.0 million and used facilities totaled \$28.7 million. The used facilities were pledged as security for issuing standby letters of credit, borrowing of short-term bank loans and accounts payable to hardware suppliers and customers. Additional bank deposits of \$5.9 million were used for issuing standby letters of credit and bank acceptance drafts as of March 31, 2013. Total bank deposits pledged as security for credit facilities, standby letters of credit, short-term bank loans and bank acceptance drafts totaled \$39.4 million as of March 31, 2013 and were presented as restricted cash in our consolidated balance sheets. During the three-month period ended March 31, 2013, the largest aggregate amount that we had used of our credit facilities was \$28.7 million.

In May 2011, we entered into a land use right transfer agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which we would acquire a land use right with a 50-year term, for a consideration of approximately \$3.0 million, which was paid in June and August 2011. Pursuant to the agreement, we have committed a minimum of \$19.9 million for capital expenditures to the building construction project, to commence construction by April 30, 2012, and to complete construction by April 30, 2014.

---

## **Table of Contents**

We anticipate that our available funds and cash flows provided by operations will be sufficient to meet our anticipated needs for working capital, capital expenditures for building construction and business expansion considering overseas projects purchase through 2013. We may need to raise additional funds in the future, however, in order to fund acquisitions, develop new or enhanced services or products, respond to competitive pressures to compete successfully for larger projects involving higher levels of hardware purchases, or if our business otherwise grows more rapidly than we currently predict. We anticipate that we would raise additional funds, if necessary, through new issuances of equity or debt securities, or through credit facilities extended by lending institutions.

Under PRC laws and regulations, our PRC subsidiaries and VIEs are subject to certain restrictions with respect to paying dividends or otherwise transferring a portion of their net assets to us. The amounts restricted include the paid-in capital and the statutory reserve of our PRC subsidiaries and VIEs. The aggregate amounts of capital and statutory reserves restricted and not available for distribution was \$82.8 million and \$88.9 million (8.0% and 8.7% of net assets) as of March 31, 2013 and December 31, 2012, respectively.

Furthermore, cash transfers from our PRC subsidiaries to our subsidiaries outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and VIEs to remit sufficient foreign currency to pay dividends or make other payments to us, or otherwise satisfy their foreign currency denominated obligations.

### **Off-Balance Sheet Arrangements**

We have not entered into any transactions, agreements or other contractual arrangements to which an entity unconsolidated with us is a party and under which we have (i) any obligation under a guarantee, (ii) any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity, (iii) any obligation under derivative instruments that are indexed to our shares and classified as equity in our consolidated balance sheets, or (iv) any obligation arising out of a variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or R&D services with us.

As of March 31, 2013, we had credit facilities for working capital purposes totaling \$150.7 million, expiring on various dates up to March 2014, of which \$28.7 million had been used as security for issuing standby letters of credit, borrowing of short-term bank loans, and accounts payable to hardware suppliers and customers. Unused credit facilities were \$122.0 million. Total bank deposits pledged as security for credit facilities, standby letters of credit, short-term bank loans and bank acceptance drafts totaled \$39.4 million as of March 31, 2013 and were presented as restricted cash in the consolidated balance sheets.

### **Accounting Pronouncements**

#### *Newly adopted accounting pronouncements*

In December 2011, the Financial Accounting Standard Board, or FASB, issued an authoritative pronouncement related to disclosures about offsetting assets and liabilities. The guidance requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. In January 2013, the FASB further clarifies that ordinary trade receivables and receivables are not in the scope of the authoritative pronouncement and the pronouncement applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of this guidance did not have a significant effect on our consolidated financial statements.

In February 2013, the FASB issued an authoritative pronouncement related to reporting of amounts reclassified out of accumulated other comprehensive income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements.

---

**Table of Contents**

The new guidance will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income but only if the item reclassified is required under US GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under US GAAP for other reclassification items (that are not required under US GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The guidance applies to all public and private companies that report items of other comprehensive income. Public companies are required to comply with the guidance for all reporting periods (interim and annual) effective for reporting periods beginning after December 15, 2012. Early adoption is permitted. We have adopted this guidance on January 1, 2013 and have presented the relevant details in the notes to the financial statements.

***Recent accounting pronouncements not yet adopted***

In February 2013, the FASB issued an authoritative pronouncement related to obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The guidance addresses for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this pronouncement is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the guidance in this pronouncement) and should disclose that fact. Early adoption is permitted. We are in the process of evaluating the effect of adoption of this guidance on our consolidated financial statements.

In March 2013, the FASB issued an authoritative pronouncement related to parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. When a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity, the parent is required to release any related cumulative translation adjustment into net income. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided.

For an equity method investment that is a foreign entity, the partial sale guidance still applies. As such, a pro rata portion of the cumulative translation adjustment should be released into net income upon a partial sale of such an equity method investment. However, this treatment does not apply to an equity method investment that is not a foreign entity. In those instances, the cumulative translation adjustment is released into net income only if the partial sale represents a complete or substantially complete liquidation of the foreign entity that contains the equity method investment.

---

## **Table of Contents**

Additionally, the guidance clarifies that the sale of an investment in a foreign entity includes both: (1) events that result in the loss of a controlling financial interest in a foreign entity (i.e., irrespective of any retained investment); and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date (sometimes also referred to as a step acquisition). Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events.

The guidance is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. The guidance should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the guidance, it should apply the guidance as of the beginning of the entity's fiscal year of adoption. We are in the process of evaluating the effect of adoption of this guidance on our consolidated financial statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to interest rate risk primarily associated with our cash and short-term investments. To date, we have not entered into any types of derivatives to hedge against interest-rate changes. There have been no significant changes in our exposure to changes in interest rates for the quarter ended March 31, 2013. Our exposure to interest rate changes is limited as we do not have any material borrowings.

We are exposed to exchange rate risk in connection with the relative value of the U.S. dollar and the RMB. A majority of our revenues and expenses relating to hardware sales and the service and software components of our business are denominated in RMB. As of March 31, 2013, approximately 91.1%, or \$267.0 million, of our cash, cash equivalents and restricted cash were RMB-denominated and approximately 8.4%, or \$24.6 million, were U.S. dollar-denominated, and approximately 0.4%, or \$1.0 million, were Hong Kong dollar-denominated. As of that date, the rate of exchange quoted by the People's Bank of China was US\$1.00 = RMB6.2689. If the exchange rate were to increase by 10% to US\$1.00 = RMB6.8958, our net assets would potentially decrease by \$52.6 million. If the exchange rate were to decrease by 10% to US\$1.00 = RMB5.6420, our net assets would potentially increase by \$ 64.3 million.

The value of our shares may be affected by the foreign exchange rate between U.S. dollars and RMB because the value of our business is effectively denominated in RMB, while our shares are traded in U.S. dollars. Furthermore, an increase in the value of the RMB may require us to exchange more U.S. dollars into RMB to meet the working capital requirements of our subsidiaries and VIEs in China. In addition, as we pursue our global strategy, we have entered into agreements denominated in various currencies of Southeast Asian countries, expect to continue to do so in future, and expect that such activities may create similar foreign exchange risk associated with the currencies of these jurisdictions. Depreciation of the value of the U.S. dollar will also reduce the value of the cash we hold in U.S. dollars, which we may use for purposes of future acquisitions or other business expansion. We actively monitor our exposure to these risks and adjust our cash position in the RMB and the U.S. dollar when we believe such adjustments will reduce our foreign exchange risk and are otherwise appropriate. We did not engage in any significant foreign exchange transactions during the three-month period ended March 31, 2013.

As in any other business, we are subject to the risk of macroeconomic changes such as recessions and inflation.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective.

**Table of Contents**

**Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

In October 2012, a putative stockholder of ours filed a civil action, derivatively on behalf of us, against the members of our Board of Directors and certain officers, which has been docketed as *Halpert v. Zhang, et al.*, in the United States District Court for the District of Delaware. The plaintiff asserted claims for breach of fiduciary duty, corporate waste, and unjust enrichment in connection with grants of stock options allegedly made in an amount that violated purported limitations set forth in the 2011 Stock Incentive Plan. The plaintiff requested rescission of the option grants in question, an award of unspecified damages to us, certain other equitable and injunctive relief, and an award of plaintiff's costs and disbursements, including legal fees. In January 2013, we and the individual defendants filed a motion to dismiss the action, and briefing on the motion was filed in March and April 2013.

While we cannot guarantee the outcome of these proceedings, we believe that the final results will not have a material effect on our consolidated financial condition, results or operations, or cash flows.

**ITEM 6. EXHIBITS**

Please see Exhibit Index.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, AsiaInfo-Linkage, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AsiaInfo-Linkage, Inc.

Date: May 9, 2013

By: */s/ Jun Wu*

Name: Jun Wu

Title: Executive Vice President and Chief Financial Officer  
(signing on behalf of the registrant and as principal financial officer)

**Table of Contents****EXHIBIT INDEX**

The following exhibits are filed as a part of this Report.

| Exhibit No. | Exhibit Title   | Filed Herewith | Incorporated by Reference |             |                      |
|-------------|---|----------------|---------------------------|-------------|----------------------|
|             |   |                | Form                      | Exhibit No. | File No. Filing Date |
| 10.1        | Renewal Agreement for Lease of AsiaInfo-Linkage's Headquarters (English Translation)  | X              |                           |             |                      |
| 31.1        | Certification of Principal Executive Officer required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 9, 2013  | X              |                           |             |                      |
| 31.2        | Certification of Principal Financial Officer required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated May 9, 2013  | X              |                           |             |                      |
| 32.1        | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 9, 2013  | X              |                           |             |                      |
| 32.2        | Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated May 9, 2013  | X              |                           |             |                      |
| 101         | Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012; (ii) Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012; (iii) Condensed Consolidated Balance Sheets as of March 31, 2013 and December 31, 2012; (iv) Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012; (v) Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2013 and 2012; and (vi) Notes to Condensed Consolidated Financial Statements * | X              |                           |             |                      |

\* The interactive data files in Exhibit No. 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.